TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

TIGTA’s Vision

To maintain a highly skilled, proactive, and diverse Inspector General organization with a record of protecting and promoting fair tax administration.

TIGTA’s Mission

Provide integrated audit, investigative, and inspection and evaluation services that promote economy, efficiency, and integrity in the administration of the Internal Revenue laws.

TIGTA’s Core Values

*Integrity* – Maintain the highest professional standards of independence, objectivity, and operational excellence in pursuit of TIGTA’s mission.

*Organizational Innovation* – Model advanced practices in organizational structure, audit, investigative, and inspection and evaluation methodology by adopting cutting-edge information technology.

*Value Employees* – Respect employees’ dignity, contributions, and work-life balance, and recognize diversity as fundamental to the strength of our organization.

*Commitment to Community* – Establish and maintain collaborative and professional relationships with other governmental and non-governmental stakeholders.
Inspector General’s Message to Congress

It is my honor to submit this Semiannual Report to Congress summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of April 1, 2011 through September 30, 2011. This report highlights the most notable audits, investigations, and inspections and evaluations performed by TIGTA, as we continue to work diligently to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of Federal tax administration.

During this reporting period, TIGTA’s combined audit and investigative efforts have recovered, protected, and identified monetary benefits totaling $16.03 billion. Our Office of Audit (OA) has completed 99 audits, and the Office of Investigations (OI) has closed 1,956 investigations over the past six months.

The Federal Government is faced with the dual tasks of reducing the deficit and stimulating the economy. TIGTA’s work during this reporting period identified opportunities to decrease Federal spending and increase the amount of tax revenue collected by the IRS. We have also closely reviewed the payment of tax credits available under the American Recovery and Reinvestment Act of 2009 (Recovery Act).

TIGTA issued several reports and I testified before the House Ways and Means Subcommittee on Oversight regarding improper payments. For the IRS, erroneous and improper payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.

The May 25 congressional testimony conveyed our concerns with the IRS’s administration of refundable tax credits. Refundable credits were designed to help low-income individuals reduce their tax burden or provide them with incentives for other activities. Although each of these refundable credits provides benefits to taxpayers, the unintended consequence is that they are often the targets of unscrupulous individuals who file erroneous claims.

TIGTA also initiated an international outreach effort to heighten IRS integrity awareness among millions of U.S. citizens living abroad, including military personnel stationed overseas, in order to deter waste, fraud, and IRS employee misconduct. This effort will further enhance TIGTA’s investigative ability to identify and mitigate potential corruption in IRS operations.
TIGTA’s International Program will strive to work closely with IRS personnel assigned to foreign countries to promote the economy, efficiency, and effectiveness of an increasingly global system of U.S. tax administration. TIGTA also seeks to partner with the U.S. Department of State, the U.S. Department of Defense, and other Federal agencies to integrate TIGTA’s message of integrity in Federal tax administration into a broader framework.

TIGTA has always included work involving international tax administration as part of its annual audit planning process. However, the amount of work conducted in this area in any given year is always limited by other competing priorities. Recognizing the growing importance of international tax administration, TIGTA created an International Tax Program Strategy that established a uniform methodology to monitor the IRS’s efforts concerning international tax administration. Since the implementation of this strategy, TIGTA issued several reports about international tax administration that were included in previous semiannual reports to Congress.

TIGTA’s work during this reporting period on the tax provisions of the Recovery Act illustrates the value of providing “real-time” auditing of the IRS’s implementation of changes in Federal tax laws. The IRS could have prevented the issuance of millions of dollars in refunds to individuals fraudulently claiming tax credits if it had implemented our recommendations.

TIGTA also continued its efforts to prevent procurement fraud. The Office of Investigations’ Procurement Fraud Division conducted comprehensive investigations involving corruption and fraud within IRS procurements, promoted fraud awareness within the IRS procurement community, and collaborated with OA to help identify contract fraud indicators. Strategies such as employing the use of advanced data mining techniques and fraud indicator training, augment the efforts of this strategic alliance and maximize resources dedicated to protecting the interest of American taxpayers. Now in its third year of operation, TIGTA’s Office of Inspections and Evaluations continued its review of IRS programs and operations, including the IRS’s policy of allowing employees to use government cars to commute to and from work.

As before, I look forward to working with Congress, the Administration, and all of TIGTA’s employees as we work tirelessly to make our Nation’s tax system more efficient, effective, and fair.

Sincerely,

J. Russell George
Inspector General
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TIGTA’s Highlights

During this reporting period, TIGTA’s combined audit and investigative efforts have recovered, protected, and identified monetary benefits totaling $16.03 billion. Through its vigilant work, the Office of Investigations successfully closed 1,956 cases, saving American taxpayers more than $52.3 million in costs. In addition, the Office of Audit completed 99 audits that identified over $15.9 billion in potential financial benefits. It is through this type of work that TIGTA is able to effectively carry out its mission of protecting the integrity of tax administration.

Examples of High-Profile Cases by the Office of Investigations:

Catherine Griffin Used IRS Computers to Fraudulently Obtain First-Time Homebuyer Tax Credits for Friends and Relatives

On June 9, 2011, in Georgia, Catherine Griffin, formerly an IRS employee, was sentenced on one count of unauthorized use of a government computer. She was sentenced to serve nine months in Federal prison, followed by two years of supervised release. She was also ordered to pay a $100 court assessment and $40,516 in restitution.1

From approximately July 2009 to November 2009, Griffin worked as a seasonal employee processing amended tax returns filed by taxpayers. Griffin had access to IRS computers. For monetary gain, she changed taxpayer information in the IRS computer systems to make it appear that individuals were eligible for the First-Time Homebuyer Tax Credits when in fact the information she entered was fraudulent.2

Mikalai Mardakhayeu Sentenced for Participation in an Online Tax Refund Scheme

On June 22, 2011, in Massachusetts, Mikalai Mardakhayeu, a Belarus national, was sentenced to 41 months in prison, two years of supervised release, and ordered to pay $209,000 in restitution.3

According to court records, from 2006 through 2007, Mardakhayeu and his co-conspirators operated websites that falsely represented to be authorized by the IRS to

offer low-income taxpayers free online tax return preparation and electronic tax return filing (e-filing).\(^4\)

After taxpayers had uploaded their tax information, co-conspirators in Belarus collected the data and altered the returns to direct the refunds to U.S. bank accounts controlled by Mardakhayeu and, in some cases, inflated the refund amounts. The co-conspirators then caused the fraudulently altered returns to be e-filed with the IRS. The co-conspirators ultimately caused the IRS and State treasury departments to deposit approximately $200,000 in stolen refunds into bank accounts controlled by Mardakhayeu.\(^5\)

**Examples of High-Profile Reports From the Office of Audit:**

**Security Over Databases Could Be Enhanced to Ensure Taxpayer Data Are Protected**

The IRS uses more than 2,200 databases to manage and process its taxpayer data. Databases are increasingly being targeted by attackers. When the right degree of security diligence is not applied, disgruntled insiders or malicious outsiders can exploit security weaknesses in IRS databases and may gain unauthorized access to taxpayer data, resulting in identity theft or fraud.

TIGTA found that non-mainframe databases containing taxpayer data were not always configured in a secure manner and were running outdated software that no longer received security patches or other vendor support. In addition, the IRS had not fully implemented its plans to complete vulnerability scans of databases within its enterprise. Also, the IRS purchased a database-vulnerability scanning-and-compliance assessment tool without completing adequate product evaluation and testing. As a result, the IRS spent more than $1.1 million in software licenses and support costs for a tool that was not fully implemented.

TIGTA recommended that the IRS ensures:

- The security vulnerabilities identified in databases are remediated;
- Explicit management approvals are included in the database configuration building process;
- A strategic plan is developed to address outdated database versions;
- Outdated databases are upgraded, migrated to newer versions, or properly approved to deviate from existing standards;
- Database vulnerability scans are conducted as required by policies;
- Database vulnerability scans test all high- and medium-risk configuration

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\(^5\) Id.
settings; and
• A thorough technical product evaluation is consistently conducted and documented for the purchase of future software products.

The IRS agreed with these recommendations and plans to take appropriate corrective actions. The IRS disagreed with TIGTA’s $1.1 million outcome measure related to the licensing of the IRS vulnerability scanning tool, but TIGTA maintained the appropriateness of the measure.

Reference No. 2011-20-044

Affordable Care Act – Efforts to Implement the Small Business Health Care Tax Credit Were Mostly Successful, but Some Improvements Are Needed

The Patient Protection and Affordable Care Act\(^6\) and the Health Care and Education Reconciliation Act\(^7\) were signed into law in March 2010. Among the credits contained in this legislation was the Small Business Health Care Tax Credit (Credit). This Credit was designed to encourage small employers to offer health-care insurance. In general, the Credit is available only to small employers who pay at least one-half the cost of health insurance coverage for their employees. The IRS’s efforts to implement the Credit were mostly successful, but some improvements are needed.

The IRS timely completed actions to plan for and implement the Credit. The volume of claims for the Credit has been low despite the IRS’s efforts to inform 4.4 million taxpayers who could potentially qualify for the Credit. According to the IRS, as of mid-May 2011, just over 228,000 taxpayers had claimed the Credit for a total amount that exceeded $278 million. Among reasons given by industry groups and professional organizations for the low volume was the time and effort required to claim the Credit. The IRS plans to conduct focus groups to determine why the claim rate was so low.

Although the Credit is specifically targeted to small employers, certain taxpayers may claim the Credit even when they have not filed employment tax returns. This occurs because companies can enter into a contractual relationship with a Professional Employer Organization that manages human resources. The Credit for Small Employer Health Insurance Premiums (Form 8941) does not contain all of the data and calculations needed to verify each step of Credit eligibility and calculation. Based on the information that was available, TIGTA found that both taxpayers and tax practitioners were making mistakes when completing Form 8941.

TIGTA recommended that the IRS:

• Track Professional Employer Organization relationships;
• Seek legislation to provide targeted math error authority that would enable the IRS to disallow the Credit when employment tax returns have not been filed;

• Consider implementing processing criteria that would route returns that are obviously wrong to the Examination function before completing processing; and
• Ensure basic checks of arithmetical accuracy during processing.

IRS management agreed with these recommendations and stated that they plan to take appropriate corrective actions.

Reference No. 2011-40-103

Recovery Act – Billions of Dollars in Education Credits Appear to Be Erroneous

The American Recovery and Reinvestment Act of 2009\(^8\) amended the Hope Scholarship Credit to provide a refundable tax credit called the American Opportunity Tax Credit. This Credit is intended to help taxpayers offset the costs of higher education.

As of May 28, 2010, TIGTA identified 2.1 million taxpayers receiving $3.2 billion in education credits that appeared erroneous. Specifically:

• 1.7 million taxpayers received $2.6 billion in education credits that appear to be erroneous based on IRS records.
• 370,924 individuals were claimed as students but were not eligible for education credits because they did not attend the required amount of time and/or were postgraduate students. This resulted in an estimated $550 million in erroneous education credits.
• 63,713 taxpayers erroneously received $88.4 million in education credits for students claimed as dependents or spouse on another taxpayer’s tax return.
• 250 prisoners erroneously received $255,879 in education credits.

TIGTA also found that at least 1.1 million of these taxpayers (52 percent) had their tax returns prepared by a paid preparer.

In addition, TIGTA identified that a valid Social Security Number (SSN) was required for Federal student aid but not for education credits. TIGTA’s review identified 84,754 students who did not have valid SSNs but $103 million in education credits were claimed for them.

TIGTA made numerous recommendations. The most significant recommendations included that the IRS:

• Revise the current Form 8863 Education Credits (American Opportunity and Lifetime Learning Credits);
• Coordinate with the Department of Education to assess the feasibility of using its data files in tax return processing;
• Initiate a recovery program for erroneously paid claims;

• Coordinate with the Department of the Treasury to determine if legislation is needed to clarify whether the American Opportunity Tax Credit may be claimed for students without valid SSNs; and
• Be provided with math error authority to disallow associated claims for these credits.

IRS management agreed with almost all of these recommendations, disagreeing only with the number of erroneous claims that TIGTA identified. However, in subsequent communications, IRS management informed TIGTA that they had found a high percentage of the claims TIGTA identified as erroneous. As of July 2011, IRS audit results showed that 72 percent of the claims reviewed were erroneous, and the IRS has proposed assessments totaling more than $2.2 million for 1,477 tax returns it has audited so far. IRS management noted that they expect the percentage of erroneous claims to further increase and, as a result, the IRS has increased the number of tax returns that it plans to review with this condition in Fiscal Year (FY) 2012.

Reference No. 2011-41-083

Example of a Significant Inspection and Evaluation Report:

A Follow-Up Evaluation of the Workers’ Compensation Program in the IRS

In 2003 and 2008, TIGTA reviewed the IRS’s Workers’ Compensation Program and made recommendations to improve internal controls. This review was conducted to determine whether the IRS implemented corrective actions related to those recommendations. Additionally, TIGTA assessed the IRS’s compliance with the Safety, Health, and Return to Employment (SHARE) initiative, and the Protecting Our Workers and Ensuring Reemployment (POWER) initiative.

The IRS had 2,610 active workers’ compensation claims as of August 2010. New claims for workers’ compensation as well as the total cost to the IRS of workers’ compensation have generally declined over the past five years. Total workers’ compensation costs have decreased from $46.7 million in FY 2006 to $44.8 million in FY 2010, although there was a slight increase from 2009 to 2010 due to increased medical costs.

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11 On July 19, 2010, President Obama established a four-year Protecting Our Workers and Ensuring Reemployment initiative, covering Fiscal Years 2011 through 2014.
TIGTA found that the IRS’s programs for returning injured employees to work have been largely successful and the IRS has implemented corrective actions for all previous recommendations. The IRS has been generally successful in meeting the goals set for the SHARE and POWER initiatives, with the exception of the goals for timely filing of claims.

First-line managers are a primary control in managing workers’ compensation claims and actions, including timely filing of the initial claims. It is the responsibility of the IRS to provide training and assistance to managers in performing duties related to workers’ compensation. Video training materials have been developed to address managers’ responsibilities for a workers’ compensation claim. However, the videos are not universally distributed, and while the IRS plans to put the video training material on an intranet site, a completion date has not been set.

TIGTA recommended that the IRS consider making workers’ compensation awareness part of the annual mandatory briefings for managers.

IRS management agreed that additional training in the workers’ compensation area could be beneficial for managers. However, the curriculum for mandatory briefings is currently full. Therefore, management plans to consider the use of alternative media for workers’ compensation training.

TIGTA agreed with the alternative solution proposed by the IRS.

Report Reference No. 2011-IE-R006

Example of a Significant Legislation Reviewed by the Office of Chief Counsel:

H.R. 2146, Digital Accountability and Transparency Act of 2011

TIGTA reviewed the Digital Accountability and Transparency Act of 2011, which would create a Government-wide Federal Accountability and Spending Transparency (FAST) Board to oversee the disbursement and use of Federal grants, loans, contracts, and other Federal awards. This bill will require agencies and the recipients of such awards to periodically report financial data to the FAST Board. TIGTA provided numerous comments on the bill, suggesting that the oversight and reporting provisions of the bill be revised to clarify the relationship between the Board and the Federal Inspectors General, and to eliminate redundant reporting requirements. TIGTA will continue to monitor this bill for changes that may have an impact on its mission.
TIGTA’s Profile

TIGTA provides independent oversight of the Department of the Treasury’s matters involving IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. Although TIGTA is placed organizationally within the Department of the Treasury and reports to the Secretary of the Treasury and to Congress, TIGTA functions independently from all other offices and bureaus within the Department.

Our work is devoted to all aspects of activity related to the Federal tax system as administered by the IRS. TIGTA protects the public’s confidence in the tax system by identifying and addressing the IRS’s management challenges and implementing the President’s Management Agenda and the priorities of the Department of the Treasury.

TIGTA’s organizational structure is comprised of the Office of the Inspector General and five functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; and the Office of Chief Counsel (see chart on page 14).

We conduct audits, inspections and evaluations, and investigations designed to:

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

Statutory Mandate

- **Protect** against external attempts to corrupt or threaten IRS employees.
- **Provide** policy direction and conduct, supervise, and coordinate audits and investigations related to IRS programs and operations.
- **Review** existing and proposed legislation and regulations related to IRS programs and operations, and make recommendations concerning the impact of such legislation or regulations.
- **Promote** the economy and efficiency in the administration of tax laws.
- **Prevent** and detect waste, fraud, and abuse in IRS programs and operations.
- **Inform** the Secretary of the Treasury and Congress of problems and deficiencies identified and of the progress made in resolving them.
TIGTA has all of the authorities granted under the Inspector General Act of 1978, as amended.\textsuperscript{12} TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA must also report potential criminal violations directly to the Department of Justice. TIGTA and the Commissioner of the IRS have established policies and procedures delineating responsibilities to investigate potential criminal offenses under Internal Revenue laws. In addition, the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)\textsuperscript{13} amended the Inspector General Act of 1978 to give TIGTA the statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Internal Revenue Code (I.R.C.) Section (§) 7608(b)(2).

\textsuperscript{12} 5 U.S.C. app. 3 (amended 2008).
Promote the Economy, Efficiency, and Effectiveness of Tax Administration

TIGTA’s Office of Audit (OA) strives to promote the economy, efficiency, and effectiveness of tax administration. TIGTA provides recommendations to improve IRS systems and operations and to ensure the fair and equitable treatment of taxpayers. TIGTA’s comprehensive and independent performance and financial audits of the IRS’s programs and operations primarily address statutory mandated reviews and high-risk challenges the IRS faces.

The IRS’s implementation of audit recommendations results in:

• Cost savings;
• Increased or protected revenue;
• Protection of taxpayers’ rights and entitlements; and
• More efficient use of resources.

Each year, TIGTA identifies and addresses the IRS’s major management and performance challenges. OA places audit emphasis on statutory coverage required by RRA 98 and other laws, as well as areas of concern to Congress, the Secretary of the Treasury, the Commissioner of the IRS, and other key stakeholders.

Audit’s Areas of Emphasis for April 2011 through September 2011

• Security of the IRS
• Modernization of the IRS
• Tax Compliance Initiatives
• Implementing Health Care and Other Tax Law Changes
• Providing Quality Taxpayer Service Operations
• Human Capital
• Erroneous and Improper Payments and Credits
• Taxpayer Protection and Rights
• Leveraging Data to Improve Program Effectiveness and Reduce Costs

The following summaries highlight significant audits completed in each area of emphasis during this six-month reporting period:
Security of the IRS

In addition to safeguarding a vast amount of sensitive financial and personal data, the IRS must also protect approximately 100,000 employees and more than 700 facilities throughout the country. Attacks and threats against IRS employees and facilities have risen steadily in recent years, and the struggling economy has provided fertile ground for some to act out their frustration against the Government. Dissatisfaction with tax administration is nothing new, and events such as the February 2010 attack on an IRS facility in Austin, Texas indicates a surge of such hostility towards the Federal Government.

Concurrent with the IRS’s monitoring of threats against its employees and facilities, the IRS must also remain vigilant with regard to computer security, particularly as it relates to safeguarding the privacy of confidential taxpayer information. As computer usage continues to be inextricably integrated into core business processes, the need for effective information-system security becomes essential to ensure the confidentiality, integrity, and availability of data. IRS computer systems process hundreds of millions of tax returns and contain confidential tax information for over 100 million taxpayers.

Response to Austin Incident

On February 18, 2010, a single-engine airplane was intentionally flown into the Echelon I building in Austin, Texas. The IRS adequately prepared for and took the necessary actions to respond to and recover from this incident, which ensured that the IRS timely resumed normal business operations. An extended disruption to IRS facilities could affect key processes such as assessing and collecting taxes, processing tax returns and refunds, and responding to taxpayer inquiries.

After the Austin incident, the IRS adequately prepared for and took the necessary actions to evacuate and protect its employees, secure taxpayer data and Federal Government property, and timely resume business operations. Specifically, the IRS provided extensive personnel services to assess and support affected employees' needs. In addition, the IRS also identified temporary office space for the affected employees, awarded several procurements to support the recovery effort in an expedited time period, and provided the furnishings and equipment needed to resume work after the incident.

However, TIGTA determined that emergency planning for the Echelon I building was not complete, as none of the IRS’s business resumption plans for its eight business units located in the building included all of the required elements. In addition, the salvage contract used to recover documents, including taxpayer data at the incident site, did not include all of the required security provisions and did not contain an official designation appointing a Contracting Officers Technical Representative. However, these issues did not have a material impact on the IRS’s response to the Austin incident and, taken as a whole, the IRS’s preparation and response ensured that the effect of the Austin incident on IRS employees and tax administration was minimized.
TIGTA recommended that the IRS:

- Ensure that lessons learned relative to the business resumption plans are applied to the development of the new continuity plans; and
- Include on the lessons-learned document and the Incident-Management Plan template the provisions for emergency procurements.

IRS management agreed with these recommendations and stated that they have taken or plan to take appropriate corrective actions.

**Reference No. 2011-10-098**

**Automated Insolvency System**

Bankruptcy petitions filed in Federal courts rose 32 percent in Calendar Year 2009 over Calendar Year 2008. The IRS receives notification when a taxpayer files for bankruptcy. The IRS inputs the taxpayer’s information into its Automated Insolvency System (AIS) to track the legal requirements for dealing with the taxpayer and to protect the Government’s financial interests. Unauthorized access to the AIS could jeopardize taxpayers’ legal rights.

Although some AIS access controls were in place, such as the automatic lockout control and password complexity settings, other required access controls had not been implemented or were not operating effectively.

TIGTA found that many IRS employees had excessive privileges to the AIS. These excessive privileges were due to two primary reasons. First, managers did not ensure that duties were adequately segregated among employees to prevent and detect unauthorized activities. Second, an inadequate role-based access control scheme[^14] was developed for the AIS. This caused managers to inadvertently grant unneeded and excessive AIS privileges to employees.

TIGTA also found that IRS managers and user administrators were not following the requirement to use the Online 5081 system[^15] to authorize and revoke access to the AIS. In addition, some significant actions taken on bankruptcy cases were not logged and reported in the AIS Manager Review screen that would allow managers to detect errors and inappropriate activities.

Therefore, TIGTA recommended that the IRS:

- Identify incompatible duties and implement policies to segregate those duties;

[^14]: System access configurations that gave conflicting privileges to individuals and did not support the concept of least privilege or allowing only those access privileges associated with an individual’s role.

[^15]: This system replaces the paper Information System User Registration/Change Request (Form 5081) with an automated, standard process. It provides automated submission, approval, recertification, and filing of the Form 5081 on an enterprise-wide basis.
• Issue a Memorandum of Insolvency to office managers requiring them to adhere to the new policy when assigning duties and approving AIS access rights;
• Define and document user requirements for the AIS based on employee job functions and position descriptions and submit these requirements to the Applications Development office in a formal work request;
• Issue a memorandum to managers emphasizing the requirement to use the Online 5081 system to authorize, revoke, and review employees’ AIS access authorizations;
• Ensure that application developers have read-only access to the AIS;
• Develop software to systemically create and assign passwords for new AIS users; and
• Create a role-based access control scheme for the AIS.

The IRS agreed with these recommendations and has taken or plans to take appropriate corrective actions.

Reference No. 2011-20-046

Centralization of the Windows Environment

The IRS operates a large computer network that includes about 6,000 servers and 110,000 workstations using Windows® operating systems provided by the Microsoft Corporation. Proper implementation of Microsoft Corporation Windows technology simplifies system administration and provides methods to strengthen and consistently secure computer systems. When IRS operations run efficiently and securely, taxpayer dollars and data are preserved and protected.

The IRS had not taken actions to continue enforcing the centralization of its Windows environment, which would simplify system administration and achieve consistent identity and authentication management that is required by Federal regulations and IRS enterprise architecture security principles. TIGTA found three organizations that maintained groups of Windows servers outside of the main centralized group of Windows servers. The IRS spent $1.2 million in contract fees to maintain obsolete computer equipment in one of these groups, rather than spending those funds to resolve the vulnerability.

In addition, the IRS did not ensure that all Windows computers connected to its network were authorized and compliant with security policy, putting the IRS at risk of security breaches. While the IRS had created standards to prevent unauthorized computers from being connected to the network, it had not established a central controlling authority to enforce compliance with its policy.

TIGTA recommended that the IRS ensures:

• An enterprise-wide Active Directory governing body is established to enforce Windows server-group design criteria and ensure that unauthorized Windows server groups are not created;
• Planned shutdown of the noncentralized groups of Windows servers is continued or feasibility studies to collapse noncentralized Windows server groups are completed;
• Standards to prevent computers from being connected to the network without proper authorization and required compliance documentation are implemented enterprise-wide; and
• Network scanning tools are utilized to locate unauthorized computers on the IRS network, and adequate procedures are developed and implemented to ensure that they are removed.

IRS management agreed with these recommendations and stated that they plan to take appropriate corrective actions. However, the IRS disagreed with the $1.2 million outcome measure related to the maintenance of obsolete computer equipment. TIGTA maintained the appropriateness of the measure.

Reference No. 2011-20-111

Modernization of the IRS

The Business Systems Modernization Program (Modernization Program or Program) is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system.

The Modernization Program has continued to help improve IRS operations and is now designed to improve business practices with new information technology solutions. However, project development activities have not always effectively implemented planned processes or delivered all planned system capabilities necessary to achieve the Program’s expectations. Managing the Program’s cost and schedule has improved since the previous year, but more attention must be given to developing and managing Program requirements.

Further security vulnerabilities affecting two significant systems have not yet been resolved. The IRS revised its Modernization Program and is currently testing a prototype\textsuperscript{16} database concept for all taxpayer data. This new approach will require the IRS to increase its employees’ information-technology-related skills, tools, and operations to effectively deliver the revised Program.

Customer Account Data Engine 2

The mission of the Customer Account Data Engine (CADE) 2 Program is to provide state-of-the-art individual taxpayer account processing and technologies to improve service to taxpayers and enhance IRS tax administration. Once completed, the new

\textsuperscript{16} This prototype is an approach to system development using an iterative process of discovering requirements, designing, and building a trial model, examining the results, and repeating the process until the desired solution is attained.
modernization environment should allow the IRS to more effectively and efficiently update taxpayer accounts, support account settlement and maintenance, and process refunds on a daily basis, all of which will contribute to improved taxpayer services.

CADE 2 Progress Toward Achieving Daily Processing

The IRS is closer to achieving one of its modernization goals, which is the daily processing of taxpayer accounts. In addition, TIGTA determined that the IRS has taken steps to address security requirements during the Daily Processing Project. However, additional improvements and adherence to all criteria will help ensure that the CADE 2 functions as intended and that the January 2012 release date is met.

TIGTA recommended that the IRS ensure that a risk-mitigation plan is formally developed and documented and that all open issues are addressed and closed prior to approving milestone exits. TIGTA also recommended several other system development process improvements.

IRS management agreed with most of these recommendations and stated that they plan to take appropriate corrective actions. However, IRS management disagreed with the recommendation to ensure that all open issues are addressed and closed prior to exiting a milestone. The IRS stated that its guidance does not list specifics around what constitutes an open issue, leaving some flexibility to make risk-based decisions on whether a given open issue will impact efforts in the following milestones or undermine the success of the project. However, the design meeting documentation (dated 10 days prior to the milestone exit) indicated that the design impact of the open issues was not known. Exiting a milestone without properly addressing critical open issues could result in rework, potentially impact the logical or physical design, and result in unnecessary costs.

CADE 2 Progress in Design Activities

The CADE 2 Database Implementation Project team made progress completing design activities and addressing security and privacy controls. Despite overall progress, improvements are needed to ensure that key activities for the Design Specification Report, audit plan, and database trial initializations are timely, and that the Interface Control Documents and Work Breakdown Structure comply with Enterprise Life Cycle criteria.

TIGTA recommended that the IRS ensures:

- Key activities and deliverables (including security) are completed timely and, if not, an assessment is made to determine the impact or risk of not completing the required activity;
- The Enterprise Life Cycle guidance is kept current and includes all artifacts needed for projects following the Iterative Path; and
Several other system development process improvements are implemented to ensure that the CADE 2 system functions as designed when deployed into IRS operations.

IRS management agreed with most of these recommendations and stated that they have taken or plan to take appropriate corrective actions. The IRS disagreed with the recommendation to ensure that the Internal Revenue Manual (IRM) guidance for the Enterprise Life Cycle is current and addresses the artifacts needed for the Iterative Path. The IRS stated that the IRM is updated annually and reflects the required artifacts. Further, the IRS indicated that when projects proceed through milestone reviews without the artifacts identified in the IRM, they do so under a tailored plan, a practice also outlined in the IRM.

TIGTA found that the IRS’s project tailoring plan contained the artifacts from the IRM and was not subsequently updated to include an updated artifact based on the Iterative Path approach. As a result, TIGTA maintains that the IRM needs to be updated to make the guidance more effective in managing projects following the Iterative Path. Until the IRM guidance can be revised during the next annual update cycle, the IRS should consider sending out additional guidance based on lessons learned.

CADE 2 Additional Security Controls

The CADE 2 Program Management Office implemented guidelines to cover key systems development processes. Due to the critical nature of the system to the IRS’s mission, 18 enhanced security controls above those required by security guidelines were added to the CADE 2 system to help protect data from unauthorized access, modification, and corruption. However, improvements are still needed to ensure Program consistency.

TIGTA recommended that the IRS:

- Ensure that project test plans are developed timely;
- Revise the IRM and other guidelines to include Program-level test plans;
- Develop a comprehensive Integrated Master Schedule;
- Identify, sufficiently trace, and control requirements and business rules in the requirements management tool prior to implementation of testing processes; and
- Use the requirements management tool to create, input, and control requirements to ensure that the CADE 2 system functions as designed when deployed into IRS operations.

IRS management agreed with most of these recommendations and indicated that corrective actions have been completed. IRS management disagreed with the recommendation to revise the Enterprise Life Cycle guidance, stating that it is for project development and is not intended to provide for detailed instructions on developing a Program-level test plan. Rather, IRS management agreed to reconcile two systems development documents that it considers as being consistent with the purpose, scope,
and timing of the Program Test Plan, and plans to maintain Program-level guidance about the process. TIGTA agreed that this alternative approach addresses the condition.

IRS management also stated that the finding regarding delays in developing the Program Test Plan appeared inaccurate, citing uncertainty or unfamiliarity with the Program Test Plan’s content was not a factor in the decision to defer delivery. However, during TIGTA’s audit fieldwork, CADE 2 Program Management Office staff advised that they were considering not completing the Program Test Plan, and only did so after TIGTA brought this to the attention of the CADE 2 Director for Delivery Management.


The IRS2GO Smartphone Application

The IRS developed the IRS2GO mobile application for the Apple iPhone® and the Google Android® smartphones. This application was successfully released to the public on January 20, 2011, and 147,205 iPhone users and 178,773 Android users have registered to use the service as of May 15, 2011, and March 1, 2011 respectively. Although the IRS2GO application is secure, enhancements in the development process could be made for future mobile applications to ensure taxpayer privacy and security.

The IRS2GO application adequately secures data communications and does not store sensitive or Personally Identifiable Information (PII) on the smartphone. The IRS2GO application is available only from the Apple App Store or the Android Market. Smartphone users should confirm that they are downloading this application from one of these two sites.

TIGTA found that the IRS did not follow appropriate processes for using a nonapproved programming language and open-source software in the development of the IRS2GO application. Management was aware of the requirement to request waivers, but advised that it made a risk-based decision not to pursue waivers in consideration of time constraints for the project. However, the IRS could not provide any documentation of the risk-based decision and informed us that this was an oral decision.

TIGTA also found that documents required to authorize the release of the IRS2GO application to the public were not obtained until after the application was released. Although the IRS2GO application did not have any significant security issues when it was released to the public, using a system development approach that does not comply with the Office of Management and Budget (OMB) Circular A-130 regulations increases the risk that applications released to the public may contain security or privacy weaknesses.

TIGTA recommended that the IRS ensures:

- Waivers are obtained before deployment when applicable;
• Risk-based decisions are clearly documented; and
• Updates to the Plan of Action and Milestones are addressed within the appropriate time period.

In addition, TIGTA recommended that the IRS:

• Coordinate the review of open-source technologies for the approval for use in future application development efforts; and
• Ensure that all system development activities follow an approach that is compliant with OMB Circular A-130.

IRS management agreed with these recommendations and stated that they plan to take appropriate corrective actions.

Reference No. 2011-20-076

Eliminating More Compliant Returns From the Audit Stream

Implementing the electronic filing (Modernized e-File) system and requiring large corporations to use it were major accomplishments. The benefits of the Modernized e-File system are enabling the IRS’s Large Business and International (LB&I) Division to better meet the expectations for efficient, modernized service for the large corporations it serves.

As envisioned in the LB&I Division’s business case, meaningful work-process improvements have been realized in the years after large corporations were required to e-file. Notably, these accomplishments included reducing the costs associated with the inefficiencies of manually processing paper returns, while enhancing customer service and increasing the availability of taxpayer information. Corporate taxpayers also reported that e-filing had reduced the time and expense (burden) of manually filing their tax returns and related forms.

Due to numerous process-improvement projects to enhance the Division’s audit process for corporations, it is very difficult, if not impossible, to isolate the impact e-filing is having on audit productivity. LB&I Division statistics show that corporate audits are taking less time and generating more additional recommended taxes.

Although e-filing was expected to provide the LB&I Division with the capability to eliminate more compliant taxpayers from its audit stream, this key benefit had not yet been realized. In each of the fiscal years since mandatory e-filing was introduced for large corporations, a higher percentage of corporate returns (roughly one out of four) audited in the Industry Case Program were closed with no adjustment when compared to any of the three fiscal years preceding its introduction.
TIGTA recommended that the IRS:

- Ensure that projects take advantage of e-file data to enhance the way returns are identified and selected for audit;
- Include methodologically sound plans for evaluating project outcomes; and
- Assess the current methods of promoting and sharing best practices for working with e-file data and use the assessment, as well as the observations in this report, to adjust current methods, as needed, so that they better meet examiner needs.

IRS management agreed with these recommendations and stated that they plan to take appropriate corrective actions.

Reference No. 2011-30-048

Tax Compliance Initiatives

Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and oversight of tax-exempt and government entities. Increasing voluntary taxpayer compliance and reducing the Tax Gap\(^ {17} \) remain the focus of many IRS initiatives. Nevertheless, the IRS faces significant challenges in obtaining complete and timely compliance data and developing the methods necessary to interpret the data. Even with improved data collection, the IRS needs to develop broader strategies and conduct more research to determine which actions are most effective in addressing taxpayer noncompliance.

Voluntary Closing Agreement Process for Public Employers

The Federal, State, and Local Governments office enters into Voluntary Closing Agreements (Agreements) to resolve tax issues with government entities that voluntarily come forward and report noncompliance. TIGTA’s review of the limited number of such agreements signed to date revealed inconsistencies in their control, processing, and monitoring, as well as in their terms and conditions. As a result, refunds were issued to public employers that were not due refunds, and taxpayer rights were potentially violated by inaccurately assessing interest.

To improve the system for handling these Agreements, TIGTA recommended that the IRS:

- Develop guidance on how to process, review, and monitor them;
- Follow up with taxpayers whose rights were potentially violated;
- Research claims and take action to ensure that future claims are worked properly;
- Improve inventory and case management controls; and

\(^ {17} \) The IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year.
• Develop guidance on how to negotiate the terms and conditions of the Agreements.

IRS management agreed with these recommendations and stated that they have taken or plan to take appropriate corrective actions.

Reference No. 2011-10-042

Audit Expansion to Prior and/or Subsequent Year Returns When Substantial Taxes May Be Owed

IRS estimates show that $197 billion of the $345 billion Tax Gap is caused by individuals underreporting their income tax liabilities. TIGTA evaluated single-year audits of individual returns for which the taxpayers involved agreed that they understated their tax liabilities by more than $4,400 each. Although similar tax issues may have existed on the returns these individuals filed for the prior and/or subsequent tax years, the audits were not expanded to these other returns in 48 of the 100 sample cases that TIGTA reviewed. As a consequence, opportunities may have been missed to address the noncompliance that contributes to the Tax Gap and promote tax system fairness among the vast majority of taxpayers who properly report and pay their taxes year in and year out.

TIGTA identified three factors that likely contributed to its concerns with expanding audits. First, the IRS strives to keep its audit inventories free of old tax-year returns. As a result, tax compliance officers seldom expand an audit to a taxpayer’s prior-year return. Second, case file documentation did not indicate that tax compliance officers were taking full advantage of the IRS’s internal sources of information when conducting required filing checks. Third, the IRS’s performance feedback mechanisms were not always taken advantage of to hold tax compliance officers accountable for the quality of their filing checks.

As a result, TIGTA recommended that the IRS provide:

• Detailed examples to tax compliance officers on when it would be appropriate to expand audits to prior and/or subsequent year returns;
• Information to tax compliance officers that focuses on using the IRS’s automated information systems to enhance the quality of required filing checks; and
• Additional guidance to first-line managers to improve feedback provided to tax compliance officers on the quality of required filing checks.

IRS management agreed with these recommendations and stated that they plan to take appropriate corrective actions.

Reference No. 2011-30-084
Reducing Processing Time Between Balance Due Notices

The notice stream is the least costly of the IRS’s three-phase approach to collecting unpaid taxes. While the notice stream collects billions of dollars in delinquent taxes annually, reducing the time between notices could result in millions more being collected annually. If the IRS does not effectively pursue collection of unpaid tax through the notice stream, it could create an unfair burden on the majority of taxpayers who fully pay their taxes on time.

During FY 2010, the IRS sent approximately 21.9 million balance due notices to individuals to try to collect approximately $67.9 billion in 11.6 million balance due modules. More than one-half of the 11.6 million balance due modules that entered the notice stream were closed as fully paid or an installment agreement was established, but only 16.5 percent of the total assessment amount was collected. By a wide margin, the first notice (the Master File notice) closed the most modules, collected the most money, and generated the most taxpayer responses.

Balance due modules not resolved after the first notice is issued continue in the notice stream, and the taxpayers receive various sequences of notices. While the statutory requirement to provide notice of a balance due is met with the Master File notice, the IRS may send up to three reminder notices. The IRS allows 35 days between notices for the taxpayer to respond, but TIGTA’s analysis showed that the time between notices can be reduced to reflect taxpayer response times. As these balance due modules progress within the notice stream, the probability of collection diminishes. TIGTA estimated that by reducing the time between notices by seven days, the notice stream could potentially collect an additional $363 million each year. However, a study analyzing the impact of reducing the time would be needed to quantify the benefits. In addition, taxpayers could potentially save $1.8 million each year in interest payments.

TIGTA’s analysis of the 11.6 million balance due modules that entered the notice stream in FY 2010 also showed that taxpayers with more than one delinquency were not always consistently treated in the notice stream. As a result, the IRS may not use collection resources most effectively.

TIGTA recommended that the IRS consider reducing the time between each notice by seven days and consider establishing a business rule to address taxpayers with more than one balance due module entering the notice stream at the same time.

IRS management agreed with the recommendations and said that they plan to take appropriate corrective actions. However, IRS management stated that 35 days between notices was necessary to process taxpayer inquiries and correspondence. The report noted that the IRS had controls in place to prevent the next notice from being sent when taxpayers’ correspondence was being processed.

IRS management also disagreed with the outcome measures, stating that while it may be appropriate to consider private collection curves when reviewing the IRS’s collection
process, the IRS has enforcement tools not available to private industry. It was unclear why the IRS referred to its enforcement tools because collection rates in private industry are higher than in the IRS. Further, the IRS’s Office of Research had reported that the probability of collection diminishes as taxpayers’ balance due accounts age.

Reference No. 2011-30-112

Implementing Health Care and Other Tax Law Changes

Each filing season\(^\text{18}\) tests the IRS’s ability to implement tax law changes made by Congress. Most individuals file their income tax returns and contact the IRS with questions about specific tax laws or filing procedures during the filing season. Correctly implementing late tax law changes remains a significant challenge because the IRS must often act quickly to assess the changes and determine the necessary actions to:

- Ensure that all legislated requirements are satisfied;
- Create new or revise various tax forms, instructions, and publications;
- Revise internal operating procedures; and
- Reprogram the major computer systems used for processing returns.

Congress frequently changes tax laws, so some level of change has become a normal part of the IRS’s operating environment. Although the IRS has generally been able to adapt and react to tax law changes, new laws do have a major impact on how the IRS conducts its activities, determines resource requirements, and progresses toward meeting its strategic goals. While the IRS has recognized the increasing complexity of tax administration in formulating its strategic plan, it has also acknowledged the impossibility of predicting with 100 percent accuracy the timing and extent of the impact of tax law changes. As such, the IRS will continue to face significant challenges in its efforts to respond quickly, accurately, and effectively to tax law changes.

Planning Efforts for the Implementation of the Affordable Care Act and the Health Care Reform Legislation

On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law and later amended on March 30, 2010, by the Health Care and Education Reconciliation Act (hereafter referred to together as the Affordable Care Act). It contains significant changes to the Nation’s health-care system.

Modernization and Information Technology Services organization

The IRS’s Modernization and Information Technology Services (MITS) organization was effectively planning the information technology work needed to implement the Affordable Care Act. The information technology work needed to implement the Affordable Care Act provisions will assist in providing taxpayers with the subsidies and tax credits needed to cover the cost of their health-care coverage as well as provide the capability to

\(^{18}\) The period from January 1 through April 15 is when most individual income tax returns are filed.
administer multiple tax provisions designed to raise revenue to offset the cost of health-care reform.

The MITS organization planned an effective approach to address the information technology work needed to implement the Affordable Care Act provisions. For example, it determined the Affordable Care Act’s impact on its organization, created a new organization called the Associate Chief Information Officer Affordable Care Act – Program Management Office, and obtained staffing and funding. A Program Governance Board Charter was approved and a governance plan was prepared. However, the governance plan did not include escalation procedures for unresolved issues or critical decisions.

Therefore, TIGTA recommended that the IRS ensure that the MITS organization’s Affordable Care Act – Program Management Office governance plan is updated to include escalation procedures to timely address unresolved issues and critical decisions.

IRS management agreed with the recommendation and stated that they plan to take appropriate corrective action.

Tax Exempt and Government Entities Division

The IRS’s Tax Exempt and Government Entities (TE/GE) Division had also completed most of its initial planning activities for the Affordable Care Act and was working on implementation activities. TIGTA did not identify any concerns relating to the methodology that the TE/GE Division used to monitor and coordinate its planning efforts. Effective planning was critical to ensuring the TE/GE Division’s readiness to implement this legislation.

The TE/GE Division established an internal Executive Steering Committee and five implementation teams to oversee the planning for the Affordable Care Act. Team meetings were held on a monthly basis to discuss progress, issues were identified, and actions were planned. Significant action items and progress were also documented in a consolidated monthly status report. The TE/GE Division had completed most of its initial planning activities and was working on implementation activities for the Affordable Care Act provisions that went into effect in Tax Year 2010.

TIGTA made no recommendations in this report. IRS management reviewed the report before it was issued and offered clarifying comments and suggestions, which have been taken into account.

Reference Nos. 2011-20-105 and 2011-10-085
Taxpayers Filing Tanning Excise Tax Returns

The legislation signed into law in March 2010 contains revenue provisions anticipated to generate $438 billion in the form of new taxes, fees, and penalties. One of these new taxes is an excise tax on indoor tanning services (tanning tax) which became effective on July 1, 2010, and is 10 percent of the amount paid for tanning services. The tax is paid by the person receiving the service and is collected by the service provider. The tanning tax is due and payable quarterly.

The IRS developed an outreach plan, updated the excise tax form and instructions, and made preparations for receiving and processing tax returns with the tax. In addition, the IRS developed a plan for dealing with noncompliance, including initiating audits and issuing notices to taxpayers who may potentially owe the tax.

The number of taxpayers filing tanning services excise tax returns was much lower than expected. According to IRS documents, in April 2010, the Indoor Tanning Association estimated that 25,000 businesses were providing indoor tanning services. However, the actual number of businesses liable for the tax had been difficult to determine with any degree of accuracy. Identifying these businesses was one of the more challenging tasks the IRS faced when implementing this provision. For the first three applicable quarters, the number of Federal excise tax forms reporting tanning taxes averaged approximately 10,300.

The IRS could have taken more timely actions to contact tanning businesses who may have owed the tax. By the time the notices were issued, tanning excise tax returns had been due for three quarters. Late filing of these returns results in the taxpayer owing the unpaid tax, plus interest and penalties. In addition, the information used to identify these businesses appeared incomplete. Furthermore, TIGTA advised the IRS that the notice did not contain some pertinent information, which the IRS added before mailing the notices. Finally, the publication containing information about excise tax requirements was not updated until more than a year had passed since the provision became effective.

TIGTA recommended that the IRS:

- Perform further analyses of the data sources used, including records with incomplete address information, to determine whether a large number of tanning businesses were not identified;
- Monitor the results from the notice mailing to determine whether additional data sources are warranted; and
- Update the excise tax publication to include tanning tax information.

IRS management agreed with these recommendations and stated that they have taken or plan to take appropriate corrective actions.

Reference No. 2011-40-115
Providing Quality Taxpayer Service Operations

In July 2005, Congress requested that the IRS develop a five-year plan, which included an outline of how the IRS would improve the service that it provides to taxpayers as well as a detailed list of which services it should provide. The IRS developed the Taxpayer Assistance Blueprint which focuses primarily on services that support the needs of taxpayers who file or should file the Form 1040 series tax returns. The Blueprint includes performance measures, service improvement initiatives, and an implementation strategy for improving future service investment decisions. The IRS has begun implementing the Blueprint, but much of its implementation depends on the availability of future funding.

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

Quality Responses When Corresponding About Tax Issues

In November 1998, the IRS issued Policy Statement P-6-12 requiring employees to initiate a response to taxpayer correspondence within 30 calendar days. Although most responses to taxpayers’ correspondence tested were accurate, they were not timely. When taxpayers’ issues are not addressed timely, taxpayers receive interim letters. However, none of the systemically issued interim letters provided taxpayers with any information specific to their accounts, and the content was not clear regarding what taxpayers needed to do.

TIGTA conducted two statistical samples and one judgmental sample from three IRS functions as part of this review. The information gathered showed that most taxpayers do not receive quality responses to their correspondence. For example:

- Of 73 correspondence cases sampled from the Accounts Management function, only 14 taxpayers (19 percent) received timely and accurate responses.
- Of 48 correspondence cases sampled in the Automated Underreporter Program, all 48 taxpayers received accurate responses, but only 27 of 48 taxpayers (56 percent) received their responses timely.

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19 The Form 1040 series tax returns include any IRS tax forms that begin with “1040” such as the U.S. Individual Income Tax Return (Form 1040), U.S. Individual Income Tax Return (Form 1040-A), and Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ).
• Of 73 correspondence cases from the Field Assistance Office, only six taxpayers (8 percent) received timely and accurate responses.

In addition, TIGTA found that the IRS did not always send required interim letters that must be sent to taxpayers if a response cannot be issued within the 30 calendar days. Also, cases were not properly categorized, suspended, or linked; and the quality review process did not ensure the following of all procedures. TIGTA also found that the IRS was not following Policy Statement P-6-12 guidelines and had not implemented any measures or processes to monitor and evaluate Policy Statement P-6-12 correspondence to ensure that taxpayers receive timely responses to their correspondence.

TIGTA recommended that the IRS:

• Clarify instructions to ensure that employees follow procedures;
• Revisit Policy Statement P-6-12 guidelines to ensure that they reflect the IRS’s current procedures and expectations;
• Complete the study of the interim letters; and
• Update quality review procedures to include a review of correspondence category codes and a determination as to whether cases should have been suspended and/or linked.

IRS management generally agreed with these recommendations but did not agree with the outcome measures claimed in the report, stating the projections were based on non-representative samples. However, these were random samples from the defined universe of cases. As such, TIGTA believes that they are representative. The five-year projections were, in fact, forecasts. This type of forecasting is used by the Federal Government in many circumstances.

Reference No. 2011-40-058

Problems in the Volunteer Program

The Volunteer Program plays an important role in achieving the IRS’s goal of improving taxpayer service and facilitating participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing directed toward underserved segments of the population of individual taxpayers, including low-income to moderate-income, elderly, disabled, and Limited-English-Proficient taxpayers. However, preparing accurate tax returns remains a challenge for the Volunteer Program.

The accuracy rates for tax returns prepared at Volunteer Program sites decreased sharply from the 2010 Filing Season. Of the 36 tax returns volunteers prepared for TIGTA auditors, only 14 (39 percent) were prepared correctly. Tax returns were prepared incorrectly because volunteers did not follow all guidelines. For example,
volunteers did not always use the intake sheets\textsuperscript{20} correctly. For three of the 22 incorrectly prepared tax returns (14 percent), volunteers knowingly modified the facts that the auditors presented.

The IRS has implemented an extensive quality review process, but it has limitations and may not be providing reliable results. Unlike TIGTA’s visits, when auditors pose as taxpayers and visit a volunteer tax preparation site to have a tax return prepared, during the IRS’s Quality Statistical Sample Reviews, volunteers are aware that IRS staff are onsite to review the tax returns that they are preparing.

Current steps and processes do not ensure the integrity of volunteers who have access to taxpayers’ PII, such as SSNs, driver’s licenses, and home addresses. The IRS does have a process to help ensure that willful acts of fraud occurring at Volunteer Program sites can be reported, but improvements are needed.

TIGTA recommended that the IRS:

- Evaluate the Quality Statistical Sample Review process to ensure that it is the best use of resources;
- Include anonymous shopping visits as part of the quality review process;
- Improve controls over Volunteer Standards of Conduct (Form 13615);
- Develop a process to ensure that all volunteers are following the guidance focusing on the integrity of the Volunteer Program and the security of taxpayer information;
- Revise the Intake/Interview and Quality Review Sheet (Form 13614-C) and the 1-877-330-1205 telephone line scripts to advise taxpayers on how to obtain refund information;
- Review the IRS fraud hotline procedures to determine best practices; and
- Ensure that telephone and email contacts are effectively controlled.

IRS management agreed with these recommendations and stated that they have taken or plan to take appropriate corrective actions.

Reference No. 2011-40-094

Human Capital

Human capital is the Federal Government’s most critical asset. At a time when the Federal Government is preparing for increased retirements and taking on such challenges as health-care reform, the recruitment of new employees and retention of existing employees plays a key role in ensuring the maintenance of a quality workforce capable of meeting the needs of the American public. Like many Federal agencies, the

\textsuperscript{20} Beginning with the 2010 Filing Season, the IRS mandated that all Volunteer Program sites that received grant funding use the Intake/Interview and Quality Review Sheet (Form 13614-C). The Form 13614-C guides volunteer tax return preparers through taxpayer interviews and allows them to gather all necessary information to prepare accurate tax returns.
IRS is faced with the major challenge of replacing existing talent caused by a large number of retirements expected over the next several years. Of approximately 100,000 employees, including 9,100 managers that the IRS employs, more than half have reached age 50 and can retire within 10 years. In addition, 39 percent of IRS executives are already eligible for retirement. Replacing these employees represents a significant challenge since many possess unique skills and institutional knowledge that will be difficult to replace.

The IRS’s challenge of having the right people in the right place at the right time is made more difficult by many complex internal and external factors. The work performed by IRS employees continually requires greater expertise as tax laws become more complex, manual systems used to support tax administration become computer-based, and attempts by taxpayers and tax practitioners to evade compliance with the tax laws become more sophisticated. The IRS must also compete with other government agencies and the private industry for the same human resources, which becomes more complicated as younger generations of employees move between jobs more frequently than employees in the past. Further, budget constraints, legislative changes, and economic shifts can create unforeseen challenges for the IRS in addressing its long-term human capital issues.

Challenges With Attrition and Workload Demands for Revenue Officer Staffing

Revenue officers (RO) have a direct impact on the IRS’s ability to meet its mission by collecting the appropriate amount of tax due. The IRS’s Small Business/Self-Employed (SB/SE) Division added 1,515 new ROs during a nine-month period, but it still struggles to keep pace with attrition and workload. If the IRS does not have a sufficient number of qualified ROs to collect delinquent taxes, it could create an unfair burden on the majority of taxpayers who fully pay their taxes on time.

To effectively plan its workforce, an organization must determine the size of the workforce needed to meet organizational goals and identify gaps between current and future workforce needs. However, when estimating the staffing levels of ROs, the IRS does not determine the number needed to address the available workload. Instead, the IRS bases the RO staffing level primarily on a budget figure. The IRS believes there is more than enough inventory to justify staffing increases. However, the IRS does not know when hiring additional ROs will no longer be needed.

The IRS’s FY 2009 budget justification projected that the RO hiring initiative would allow 88,000 additional delinquent account closures, resulting in $333.6 million in additional revenue for FY 2011. However, the IRS does not compare actual results to the original projections, as would be consistent with guidance from the OMB. As a result, it is unknown if the IRS realized all or part of the additional revenue, and the IRS lost an opportunity to collect information that could help improve future budgets.
TIGTA recommended that the IRS:

- Establish rules for optimizing staffing levels for ROs to address Collection’s potentially collectible inventory; and
- Develop methods to track actual results with projected benefits in future budget justifications.

IRS management agreed to review Collection’s workload and resource levels to improve future resource allocation and staffing decisions. IRS management also stated that they initiated efforts last year to determine the actual revenue collected from specific enforcement initiatives proposed in FY 2009. However, this information was not shared with TIGTA during the review. As a result, TIGTA did not assess whether those efforts addressed the recommendation.

Reference No. 2011-30-039

Additional Actions Should Be Taken to Better Monitor Hiring Timelines and for the Administration of Recruitment and Retention Incentives

Hiring Timelines

Human Capital Office management has taken steps to reduce hiring timelines through system improvements and the use of hiring timeline tools and has created performance goals and measures for individual steps in the hiring process for all hiring categories. As a result, the IRS reported that the timelines for hiring employees from outside the Government for the various single open positions (versus large group hirings) decreased from 157 calendar days in June 2009 to 130 calendar days for FY 2010.

While improvements had been made, the Human Capital Office management’s implementation of a new computer system to increase efficiency did not provide easy access to inventory reports, and hiring timeline tools were not used in all offices to fully achieve their benefits. Further improvements in these areas could help Human Capital Office management further reduce hiring timelines to compete for potential employees with the unique skills needed to replace those who are retiring or leaving for other jobs.

TIGTA recommended that the IRS complete programming for web-based, time-in-process reports and provide guidance to ensure that Human Capital Office branch offices understand the use and benefits of tools developed to reduce hiring timelines.

IRS management agreed with the recommendations and has taken or plans to take appropriate corrective actions.

Recruitment and Retention Incentives

To assist in its workforce planning efforts, the IRS, like other Federal agencies, has the flexibility to use payment compensation in the form of recruitment and retention incentives to attract and retain a high-quality workforce. Specifically, the IRS can offer
recruitment incentives to attract new employees for positions that are difficult to fill, and retention incentives to retain employees with unusually high or unique qualifications.

Since FY 2008, IRS management has improved their administration of the use of recruitment and retention incentives; however, procedures are not adequate to ensure compliance with all Federal and internal guidelines. Additional improvements will provide assurance that the IRS uses recruitment and retention incentives effectively and only in circumstances where they are needed, preventing a potential waste of Government funds.

TIGTA recommended that the IRS strengthen manual controls to ensure that Federal and internal guidelines are met, and develop a methodology to assess the impact of the use of recruitment and retention incentives in helping the IRS to meet its long-term workforce planning goals.

IRS management agreed with the recommendations and stated that they have taken or plan to take appropriate corrective actions.

Reference Nos. 2011-10-089 and 2011-10-107

Erroneous and Improper Payments and Credits

As defined by the Improper Payments Information Act of 2002, an improper payment is any payment that should not have been made or was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts. For the IRS, erroneous and improper payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.

The Administration has emphasized the importance of reducing improper payments. In November 2009, the President issued Executive Order 13520, which included a strategy to reduce improper payments by increasing transparency, holding agencies accountable and creating strong incentives for compliance. Recently, the Improper Payments Elimination and Recovery Act of 2010 placed additional requirements on Federal agencies to reduce improper payments.

Purchase Card and Fleet Card Programs

Purchase Card Program

From September 1, 2007 through March 31, 2009, the IRS made more than 174,000 purchases totaling more than $80 million using purchase cards. However, the IRS does not have the necessary controls in place to ensure that:

- Improper and abusive purchases do not occur;
- Any such transactions are promptly detected; and
- Appropriate corrective action is taken.

While some controls were working as intended, overall management controls were not effective to ensure the appropriate use of IRS purchase cards. TIGTA found violations of applicable laws and regulations, including purchases made without necessary approvals and verification of funding, purchases that were potentially split into two or more transactions to circumvent micro-purchase limits, and purchases made from improper sources. In addition, the IRS did not have a policy to provide guidance for establishing an appropriate span of control over the number of purchase cardholders assigned to approving officials.

Until management controls are effectively strengthened, implemented, and enforced, the IRS will continue to be at risk for noncompliance with applicable laws and regulations, and the IRS cannot ensure that improper and abusive purchases do not occur. In addition, if such purchases do occur, the IRS cannot ensure that the transactions are promptly detected and that appropriate corrective actions are taken.

TIGTA recommended that the IRS:

- Emphasize to cardholders that split-purchase transactions will not be tolerated;
- Emphasize the importance of preparing an order log prior to purchase;
- Improve oversight reviews by using data analysis techniques to identify potential split-purchase transactions;
- Expand oversight reviews to include evaluating the requirement for purchasing office supplies from contract vendors and preferred sources; and
- Develop and implement guidance for determining an appropriate span of control for approving officials.

IRS management agreed with these recommendations and stated that they have taken or plan to take appropriate corrective actions.

Fleet Card Program

Fleet cards are used to purchase fuel and minor vehicle repairs and maintenance related to fleet vehicles leased by the IRS. The IRS’s SB/SE Division’s Fuel Compliance Fleet Card Program (Fleet Card Program) lacks sufficient management
oversight and internal controls to prevent, detect, and deter waste, fraud, and abuse. Without adequate internal controls, IRS management risks losing track of the vehicles and assigned fleet cards. Management also cannot be assured that fuel and repair charges incurred are only for official business and risks paying for inappropriate vehicle expenses.

IRS management’s oversight and internal controls over the Fleet Card Program were not effective and did not ensure that all transactions were appropriate and legitimate. Although TIGTA did not identify specific transactions indicative of waste, fraud, or abuse of the fleet cards, TIGTA determined that the SB/SE Division did not retain adequate documentation to justify that all transactions charged to the fleet cards during the audit period were appropriate and legitimate.

TIGTA recommended that the IRS develop and implement formal fleet card policies, procedures, and management controls in compliance with OMB Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs; the Standards for Internal Control in the Federal Government; and IRS vehicle inventory procedures. In addition, these policies should prevent the use of fleet cards for home-to-work transactions unless authority has been obtained in accordance with Treasury Directive 74-06 and Federal regulations.

IRS management agreed with these recommendations and stated that they plan to take appropriate corrective actions.

Reference Nos. 2011-10-075 and 2011-10-125

Erroneous Investment Theft Loss Deductions

Federal law, along with associated regulations, procedures, and rulings, provides taxpayers with tax relief for investment theft losses. The IRS estimates that more than 19,200 taxpayers filed Tax Year 2008 tax returns claiming a combined total of more than $8 billion in property income casualty and theft deductions. TIGTA’s review identified that taxpayers may be erroneously claiming investment theft loss deductions. Revenue losses associated with potentially erroneous deductions could be substantial.

Based on TIGTA’s review of a statistically valid sample of 140 electronically filed Tax Year 2008 tax returns on which taxpayers reported an investment theft deduction, TIGTA estimated that 1,788 of 2,177 taxpayers (82 percent) may have erroneously claimed deductions totaling more than $697 million, resulting in revenue losses totaling approximately $41 million. The potential revenue loss estimate was conservative in that it only represented electronically filed tax returns for one year.

TIGTA recommended that the IRS:

- Revise the Form 4684 to include additional information on these deductions; and
- Establish a Compliance Initiative Project to measure noncompliance for such claims.
IRS management agreed with these recommendations and stated that they plan to take appropriate corrective actions.

Reference No. 2011-40-124

Taxpayer Protection and Rights

The IRS must ensure that it balances tax compliance activities against the rights of taxpayers to receive fair and equitable treatment. The IRS continues to dedicate significant resources and attention to implementing the taxpayers’ rights provisions of RRA 98. In general, the IRS has improved its compliance with these statutory taxpayer rights provisions. However, TIGTA audits continue to show that there are circumstances in which the IRS can better protect taxpayers’ rights.

Appropriate Notification to Some Taxpayers When Personally Identifiable Information Was Inadvertently Disclosed

Taxpayers need to be assured that the IRS will promptly notify them of inadvertent disclosures of their PII so they can take the necessary steps to protect themselves from identity theft or other harm. The IRS has many processes and regulations that protect taxpayer information, but there are times when taxpayer information is inadvertently disclosed.

TIGTA reviewed a statistical sample of 98 case files of incidents reported as inadvertent disclosures in FYs 2009 and 2010, and found that not all taxpayers were properly and/or, timely notified of disclosures.

- Five of 98 incidents (5 percent) were closed and taxpayers were not properly notified of the disclosures because IRS employees reporting the disclosures did not document the identity of the individuals whose PII had been disclosed.
- Ten of 98 incidents (10 percent) were closed and taxpayers were not properly notified of the disclosures.
- Twenty of the 27 incidents (74 percent) in the 98 incidents sampled that required taxpayer notification were not sent timely. TIGTA considered notifications timely if taxpayers were sent notifications within 45 days of the date when the incident was reported to or identified by the IRS. The notification letters in the sample averaged 86 days.

24 The IRS has many processes and regulations that protect taxpayer information, but there are times where taxpayer information is inadvertently disclosed. For example, an employee could inadvertently include Jane Smith’s tax return in an envelope with Mary Smith’s tax return and send it to Mary – thus inadvertently disclosing Jane’s Personally Identifiable Information to Mary. Alternatively, at the taxpayer’s request, the IRS could fax a copy of the taxpayer’s tax return but use an incorrect fax number. When inadvertent disclosures happen and the risk of identity theft or other harm is likely, taxpayers need to be assured that the IRS will promptly notify them so they can take the necessary steps to protect themselves from identity theft or other harm.
In addition, TIGTA’s reconciliations performed on the four systems the IRS uses to capture disclosure-incident-related information identified 815 missing incident reports.\(^{25}\) As a result, TIGTA recommended that the IRS:

- Educate employees on the importance of obtaining sufficient information on individuals whose PII was disclosed;
- Revise procedures to include tax account information in the PII definition and instruct the Incident Management Program to forward disclosure incidents to the IRS’s Identity Theft Program for victims of identity theft;
- Implement a timeliness measure that includes the time the incident is processed by other IRS offices or functions before it is reported to the Computer Security Incident Response Center; and
- Implement sufficient controls, including a management information system, to ensure that all incidents are accurately documented and considered.

IRS management agreed with these recommendations and stated that they have taken or plan to take appropriate corrective actions.

Reference No. 2011-40-054

**Leveraging Data to Improve Program Effectiveness and Reduce Costs**

While the IRS has made progress in using its data to improve program effectiveness and reduce costs, this area continues to be a major challenge. The IRS lacks a comprehensive, integrated system that provides accurate, relevant, and timely financial and operating data that can be used to evaluate performance measures, productivity, and the associated costs of IRS programs. In addition, the IRS cannot produce timely, accurate, and useful information needed to make day-to-day decisions, hindering its ability to address financial management and operational issues.

**Improvements Are Needed to Control Costs and Improve Building Security With Outsourced Office Support Services**

In November 2006, the IRS awarded a contract with a maximum value of approximately $90 million to a private contractor to perform support-service functions, including storage and management, throughout IRS facilities. Overall, TIGTA found that the IRS expends time and resources storing items it has not clearly determined to be of future use and has ineffective controls over credentials, such as identification badges issued to contractor employees. As a result, the IRS may be paying more for its support-service needs than is necessary and its facilities may be at risk for unauthorized access.

TIGTA determined that the IRS should take additional steps to ensure that support-services are managed in a more cost-effective and secure manner. Specifically, the IRS should evaluate the cost effectiveness of storing rather than disposing furniture.

\(^{25}\) These were disclosure incidents - inadvertent disclosure of taxpayer information.
and equipment when it has not been clearly determined to be of future use.

In addition, TIGTA determined that controls should be improved to ensure that contractor employees no longer have access to IRS locations after their separation from employment. The IRS could not confirm that 116 of the 124 employees (94 percent) separated from the contractor since the initiation of the contract returned their identification badges and building access cards as required. As a result, the security of IRS facilities and Federal Government assets may have been compromised.

TIGTA recommended that the IRS:

- Review all items currently in storage to identify items for possible disposal;
- Maintain documentation regarding the reason for storage for all future items placed into warehouse storage;
- Establish criteria to guide future decisions regarding whether items should be placed into storage;
- Ensure that the IRS retains flexibility to implement potential cost savings identified as a result of inventory reviews or changes to storage policies;
- Incorporate into existing procedures the required exit procedures regarding separating contractor employees; and
- Reconcile Contractor Security Lifecycle Program records to a quarterly listing of separated employees provided by the support-services contractor.

IRS management agreed with these recommendations and stated that they plan to take appropriate corrective actions.

Reference No. 2011-10-086
Protect the Integrity of Tax Administration

TIGTA is statutorily mandated to protect the integrity of Federal tax administration and to provide independent oversight of matters involving IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. TIGTA’s Office of Investigations (OI) accomplishes this important responsibility by conducting a comprehensive investigations program. Specific strategies, tools, and techniques detect waste, fraud, and abuse while protecting the integrity of the Federal tax system, as well as the IRS’s ability to collect trillions of dollars in revenue each year for the Federal Government.

As illustrated above, OI uses a performance model to measure its effectiveness, guide activities, and demonstrate its accomplishments to stakeholders. This performance model clearly identifies the three primary areas of OI’s investigative focus: employee integrity; employee and infrastructure security; and external attempts to corrupt tax administration. The outer triangles further identify the components of each investigative area. The model is a valuable tool that allows OI to strategically focus its activities around its core mission. In addition to quantifying productivity, the model also produces reliable data for determining other organizational needs, such as budget, training, and human capital. It also helps OI management define strategic goals and develop

Through the use of this performance measure, OI executives and senior managers are able to set and adjust goals for each field division while considering the operational conditions unique to each specific field division. Each field division contributes its individual performance results to the organization’s overall goals, allowing each employee within that division to play an integral part in the agency’s overall success.

During this reporting period, OI processed 4,748 complaints and opened 1,800 investigations. OI’s casework also resulted in 1,956 closed investigations.
Employee Integrity Investigations

Employee misconduct undermines the IRS’s ability to deliver taxpayer service, to enforce tax laws effectively, and to collect taxes owed. Many of OI’s criminal and administrative investigations are based on allegations or information indicating that IRS employees have engaged in misconduct. Misconduct by IRS employees manifests itself in a variety of ways, including extortion, bribery, theft, taxpayer abuses, false statements, and financial fraud. OI’s strategies to promote employee integrity include both proactive and reactive investigative programs designed to achieve high-impact, results-oriented quality investigations. As illustrated in the performance model workload distribution graph, 52 percent of TIGTA’s current investigations involve alleged employee misconduct.

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

IRS Revenue Officer Pled Guilty to Stealing Approximately $160,000 in Taxpayer Funds

On June 24, 2011, in New York, Fern Stephens, an IRS Revenue Officer, pled guilty to one count of mail fraud. Stephens was employed by the IRS from January 9, 1984 through December 2010.

As a Revenue Officer, Stephens was responsible for collecting taxes from individuals and corporations. As a condition of employment, Stephens was required to sign an annual certification stating that she would not access tax records in IRS databases other than in connection with her official duties.

From March 2003 through November 2010, Stephens used her official position to steal taxpayer funds held by the IRS by devising a scheme involving an IRS database. Stephens made false computer entries that documented purported requests to transfer

Integrity/Fraud Awareness

To heighten integrity awareness and to provide a deterrent effect against waste, fraud, abuse and misconduct, TIGTA conducts integrity awareness presentations for IRS employees. These outreach initiatives by OI have proven to be very effective in producing positive results and are an integral part of its operational strategy. The outreach allows TIGTA to educate and have contact with large segments of the IRS workforce regarding the prevention of fraud in the tax system. During this reporting period, TIGTA provided presentations to more than 18,115 IRS employees.

corporate or business-entity tax refunds or payments. Because of Stephens’ actions, the IRS issued checks, wires, and credits to Stephens’ relatives and close associates. Stephens caused about 20 fraudulent credit transfers, from approximately 14 taxpayer victims, to be sent to eight of her relatives or close associates.  

**Monica Hernandez Indicted for Making and Subscribing a False Income Tax Return, Wire Fraud, and Aggravated Identity Theft**

On April 14, 2011, in California, Monica Hernandez was indicted on three counts of making and subscribing a false income tax return, six counts of wire fraud, and one count of aggravated identity theft.

Hernandez was an employee of the IRS and worked as a part-time data entry clerk. As part of her duties, Hernandez entered taxpayers’ information into the IRS’s computer system.

During the course of her employment with the IRS, Hernandez stole and/or misappropriated taxpayers’ information listed on various IRS forms, including Form 1099-B (Proceeds From Broker and Barter Exchange Transactions). This particular form lists a taxpayer’s income received and withholdings withheld from interest and dividend earnings. Hernandez falsified and forged Forms 1099-B to reflect her own personal information. Although, in most cases, Hernandez did not submit the falsified 1099-B forms with her own tax returns, she used these forms to obtain large tax refunds. As a result of her fraud, Hernandez was able to obtain refunds from the IRS in the amount of $175,144.

From about February 2010 until June 2010, Hernandez used another scheme to defraud the IRS. She filed a new series of fraudulent tax returns, similar to the ones she filed for herself claiming excessive withholdings. This time, Hernandez used other individuals’ personal information, instead of her own, to obtain large refunds. She acquired taxpayers’ personal information from Internet websites. Some of the taxpayers whose identities Hernandez used to file the tax returns were deceased at the time the returns were filed. In addition, Hernandez filed false tax returns using a relative’s information and opened a bank account in the relative’s name in order to deposit the refund check obtained from the false return.

Hernandez illegally acquired and removed from an IRS Service Center 68 separate taxpayers returns. These returns were received by the IRS but had not been entered into the IRS’s computer system. After illegally removing these tax returns from the IRS, Hernandez proceeded to electronically file the fraudulent tax returns for her own benefit by using the identification of some of these taxpayers. These returns were filed from California to IRS locations throughout the United States. Any refunds generated from

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30 Id.
31 Id.
these fraudulent returns were generated outside of California and transferred across State lines and eventually back to California.  

**Roxane Posada Sentenced for Theft of Public Money**

On May 19, 2011, in California, Roxane Posada, an IRS employee, was sentenced for theft of Government funds. She was sentenced to serve three years of supervised probation and ordered to pay $4,995 in restitution to the IRS. Posada was also ordered to perform 250 hours of community service and to pay a $25 special assessment.

On about January 4, 2009, and November 5, 2010, Posada stole money while serving as an IRS Human Resource Specialist. Posada knowingly and willfully falsified her time records and received unearned compensation in the amount of $4,995.

**Gina Browning Sentenced for Theft of Internal Revenue Funds**

On May 27, 2011, in Rhode Island, Gina Browning was sentenced on one count of stealing Government funds. She was ordered to pay a $5,000 fine, restitution in the amount of $423, and a $25 assessment.

According to court documents, Browning, while serving as an IRS employee, filed activity reports in which she falsely claimed to have performed work. Browning falsely claimed a total of $423 in reimbursable expenses to which she was not entitled.

**Patricia Serbera-Robledo Sentenced for Conspiracy to Defraud the United States**

On July 22, 2011, in California, Patricia Serbera-Robledo was sentenced on one count of conspiracy to defraud the United States. She was sentenced to serve 36 months of probation. She was also ordered to pay $13,167 in restitution and a $100 assessment.

From March 2005 through June 2007, Abel Robledo, who was incarcerated at the Corcoran State Prison, and Patricia Serbera-Robledo, who was employed by the IRS, conspired to defraud the United States by preparing and submitting or causing to be submitted individual Federal tax returns to the IRS in the names of prisoners. These returns contained false and fictitious information. The income tax returns also claimed false wage and withholding amounts based on purported hourly earnings by the prisoners at the State minimum wage or higher, and claimed false Federal income tax

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36 D.R.I. Plea Agr. filed Mar. 15, 2011. There is a minor discrepancy between the Plea Agreement and the Criminal Judgment. The Plea Agreement specifies that Ms. Browning made false claims for reimbursable expenses in the amount of $423. The Criminal Judgment, however, orders Ms. Browning to pay $423 in restitution.
withholdings that did not exist. Once Abel Robledo, Patricia Serbera-Robledo and others received the fraudulent tax refund checks, they presented them to the IRS for payment. The IRS issued tax refunds totaling over $13,000 based on these fraudulent income tax returns.\textsuperscript{38}

**IRS Employee Sentenced for Embezzlement and Theft**

On August 31, 2011, in Ohio, Vonda Edmonds was sentenced on one count of embezzlement and theft. She was sentenced to serve two years of probation, and ordered to pay $3,915 in restitution and a $100 special assessment.\textsuperscript{39}

From about September 27, 2005 until about October 27, 2005, in the Southern District of Ohio, Edmonds, an employee of the IRS, embezzled taxpayers’ payments to the IRS in the amount of $3,915.\textsuperscript{40}

**Strategic Data Services Division**

The protection of confidential taxpayer information is of critical importance to America’s taxpayers. Unauthorized access (UNAX) of tax information undermines the taxpaying public’s trust in IRS to safeguard confidential tax information in its custody.

The Strategic Data Services Division (SDS), formerly known as the Strategic Enforcement and Data Integrity Division, has a unique mission in not only supporting OI, but also supporting the data and information needs of TIGTA’s Office of Audit and Office of Inspections and Evaluations. The SDS group is responsible for identifying possible fraudulent activities and control weaknesses in IRS operations, including detecting potentially unauthorized accesses to electronic taxpayer records maintained within IRS computer systems.

As an integral part of OI’s employee integrity program, SDS proactively identifies IRS employees who access and/or disclose private taxpayer information. IRS employees who are found to have committed UNAX violations are subject to Federal prosecution, termination of employment, or other disciplinary action. OI initiated 234 UNAX investigations between April 1, 2011 and September 30, 2011.

The following cases are examples of UNAX investigations conducted during this period:

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\textsuperscript{38} E.D. Cal. Indict. filed Nov. 18, 2010.
\textsuperscript{40} S.D. Ohio Indict. filed Oct. 5, 2010.
Vandetta Y. Logan Sentenced for the Unauthorized Inspection of Return Information

On April 22, 2011, in Michigan, Vandetta Y. Logan pled guilty to one count of unauthorized inspection of return information. She was sentenced to two years of probation and ordered to pay a $25 assessment.41

According to court documents, Logan worked as an Individual Taxpayer Advisory Specialist for the IRS in Saginaw, Michigan. On December 17, 2009, Logan inspected her brother’s Federal tax account without authorization.42

IRS Employee Cheryl Nelson Sentenced for Unauthorized Access of Federal Taxpayer Information

On June 2, 2011, in Pennsylvania, Cheryl Nelson pled guilty to one count of exceeding authorized access on a government computer. Nelson was sentenced to 12 months of probation and ordered to pay a $500 fine and a $25 assessment.43

According to court documents, on or about February 16, 2006, Nelson, an IRS employee, intentionally accessed a protected computer without authorization and exceeded her authorized access by obtaining information about a taxpayer.44

IRS Employee Sentenced for Unauthorized Access of Federal Tax Information

On June 2, 2011, in California, Alice Rodriguez was sentenced on one count of unauthorized computer access. She was ordered to perform 75 hours of community service, to serve one year of probation, and to pay a $750 fine and a $25 assessment.45

According to court documents, on or about April 21, 2010, Rodriguez, while serving as an IRS employee, intentionally accessed electronically stored Federal tax information on the IRS’s electronic system. Rodriguez was not authorized to access this information.46

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Employee and Infrastructure Security

TIGTA is committed to protecting approximately 100,000 IRS employees and more than 700 facilities throughout the country. IRS employees are entrusted with promoting tax compliance and enforcing the tax code. With those responsibilities come challenges and potential dangers.

Office of Investigations continued to enhance its method for categorizing and prioritizing threats against IRS employees, facilities, and critical infrastructure by refining communications between OI and IRS senior management. OI and IRS strengthened partnerships to effectively mitigate current and future threats directed against the IRS and its employees. For example, OI enhanced its partnerships with the IRS Office of Physical Security and Emergency Preparedness, the Office of Online Fraud Detection and Prevention, the Situational Awareness Management Center, the Office of Privacy, the Computer Security Incident Response Center, and the Treasury Operations Center, to become a more cohesive threat mitigation team. As a result, the IRS Threat Information and Critical Incident Response Initiative (TIRC) emerged and has proven to be an effective mechanism to review and disseminate threat information to IRS stakeholders in support of TIGTA’s critical employee-safety mission. The TIRC serves as a central focal point for the timely and efficient sharing of threat information, thereby allowing the IRS to take appropriate mitigation actions.

When performing their official duties, IRS employees routinely interact with taxpayers. Contact with taxpayers can become stressful or confrontational and possibly result in violence. On May 2, 2011, OI assumed the sole responsibility for all armed escorts of IRS employees to ensure that IRS employees are able to safely perform their jobs without fear of physical attack. This was once a shared responsibility with the IRS Criminal Investigation. The number of armed escorts OI provided for FY 2011 increased 159 percent since FY 2010.

Effective August 1, 2011, OI, in collaboration with the IRS Office of Employee Protection (OEP), improved the strategies used for assessing ongoing risks that taxpayers may pose to IRS employees and strengthened the IRS’s Potentially Dangerous Taxpayer (PDT) program. The PDT program helps the IRS identify taxpayers who present a

IRS SECURITY

Historically, IRS buildings and operations have been targets of those who advocate violence against the Federal Government. Since TIGTA has the statutory responsibility to investigate threats to IRS personnel and facilities, it dedicates significant attention to detecting and investigating threats from both foreign and domestic sources. Since the beginning of FY 2011, OI has investigated 1,416 threat related incidents.
potential danger to employees attempting to perform their official duties. Additionally, the Caution Upon Contact (CAU) designation was put in place to identify taxpayers who did not reach the PDT threshold, but warranted caution upon contact by IRS employees. OI referred 807 cases to OEP during this reporting period which resulted in 575 of the cases reviewed receiving PDT or CAU designations.

OEP is responsible for the overall operation, management, and oversight of the PDT and CAU programs. As part of the new strategy, OI initiates follow-up investigations to reassess a taxpayer’s ongoing potential to endanger IRS employees and reports results of OI’s threat and assault investigations to OEP for renewal determination.

To further support OI’s proactive threat investigative function, particularly relating to emerging anti-tax and anti-government groups, OI has a full-time presence at the Federal Bureau of Investigation’s (FBI) National Joint Terrorism Task Force and the Domestic Terrorism Operations Unit. These representatives serve as OI’s national criminal intelligence coordinators for all threat information developed by the FBI and other law enforcement officials within the task force which has the potential to directly impact IRS personnel, facilities, or critical infrastructure.

Moreover, the Internet remains a convenient and easily accessible avenue for the public to vent their frustration or anger against the IRS. For example, following the tragic event in February 2010, when an individual flew his aircraft into an IRS building in Austin, Texas and killed himself and an IRS employee, OI observed an increase in hostile and threatening comments towards the IRS in online message boards and various other Internet-based forums. As a result of this increase in Internet activity, OI’s investigative inventory also increased to address these emerging potential threats to the IRS.

The following cases are examples of employee and infrastructure security investigations conducted during this period:

**Michael Higginbotham Sentenced for Assaulting a Federal Agent With a Deadly Weapon and Using a Firearm in the Commission of a Crime of Violence**

On June 22, 2011, in California, Michael Higginbotham was sentenced on one count of assault on a Federal officer with a deadly weapon. He was sentenced to serve a term of five years in Federal prison and a subsequent term of three years of supervised Federal probation upon his release. He was also ordered to pay a mandatory special assessment fine of $100. In addition, Higginbotham was ordered to perform 20 hours of community service per week as directed by the United States Probation Office when he is not employed at least part-time and/or enrolled in an educational or vocational program.47

On about August 4, 2010, Higginbotham, with another individual brandished a 12-gauge shotgun and intentionally used force to commit an assault on an IRS Criminal

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Investigation special agent while the agent was engaged in the performance of official duties. Higginbotham knowingly used, carried, and brandished the firearm during and in relation to a crime of violence, in violation of Federal law.48

Aaron Johnson Sentenced for Threatening to Damage an IRS Facility

On July 13, 2011, in Missouri, Aaron Johnson pled guilty to one count of threatened use of explosives. He was sentenced to time served, two years of supervised release, and ordered to pay a $100 assessment.49

According to court documents, on April 14, 2010, Johnson called a facility managed by the IRS in St. Louis, Missouri, and threatened to “blow up” the facility. Johnson admitted that he willfully made the threat by using a mobile telephone.50

Don Asheim Pled Guilty for Mailing a White Powdery Substance Accompanied by Hostile Statements to the IRS

On June 10, 2011, in Illinois, Don Asheim pled guilty to engaging in conduct in violation of Federal law.51

According to court documents, on about April 30, 2010, Asheim placed a white powdery substance in an envelope addressed to the attention of a specific individual at the IRS. Enclosed in that same envelope was Asheim’s tax bill, which he altered to remove his personally identifiable information in an attempt to conceal his identity. Asheim also wrote various hostile and profane statements on the tax bill and placed it in outgoing mail.52

Carole Cotton Pled Guilty to Assault on a TIGTA Special Agent

On August 10, 2011, in Florida, Carole Cotton pled guilty to one count of assault on a Federal Officer.53

On May 12, 2011, Cotton telephoned the IRS regarding a collection letter she received. During the phone call, Cotton threatened to shoot anyone who stepped onto her property.54

On May 18, 2011, a TIGTA special agent went to Cotton’s residence to question her about the telephone statement that she made. The TIGTA special agent identified himself as a Federal agent with the Department of the Treasury. Cotton responded,

“hold on let me go get my gun.” She then turned to reenter her home. Cotton was then restrained until she calmed down. She was later allowed back into her home accompanied by TIGTA agents. However, once she entered her home, Cotton went to a cabinet and removed a golf club and threw the golf club at the agent. Cotton was then taken into custody.55

Lonnie and Karen Vernon Indicted for Conspiracy to Kill a Federal Judge and IRS Employee

On March 17, 2011, in Alaska, Lonnie and Karen Vernon (“The Vernons”) were indicted for multiple counts of various Federal offenses, including conspiracy to kill a United States District Court Judge and an employee of the IRS, while such officer and employee were engaged in the performance of their official duties.56

According to the indictment, in July 2009, the United States filed a civil tax case against the Vernons alleging that they owed $118,000, as a result of failing to pay taxes to the IRS over the course of several years. The Vernons filed a counterclaim against the United States as part of their civil tax case. In response, the Federal District Court issued an order granting the United States’ motion and dismissed the Vernons’ counterclaim. In that order, the District Court also advised the Vernons of a possible foreclosure sale of their property to satisfy the tax due to the IRS.57

Between February 4 and March 10, 2011, the Vernons committed numerous overt acts in furtherance of the conspiracy, including expressing a continued interest in purchasing a silencer and hand grenades. Lonnie Vernon stated that he planned to use the silencer to kill an IRS employee. The Vernons offered to trade Karen Vernon’s jewelry in exchange for the grenades. The Vernons also purchased and received a pistol equipped with a silencer and received three hand grenades, not knowing at the time that they were inert.58

External Attempts to Corrupt Tax Administration

TIGTA’s statutory law enforcement mandate requires investigating external attempts to corrupt or interfere with the administration of Internal Revenue laws. External attempts to corrupt tax administration impede the IRS’s ability to collect revenue and undermine the public’s confidence in fair and effective tax administration. Examples of these investigations include bribes offered by taxpayers to compromise the integrity of IRS employees, the use of fraudulent IRS documents to commit crimes, impersonation of IRS officials, and corruption of IRS programs through procurement fraud.

On October 1, 2010, OI made an organizational change that created the Procurement Fraud Division (PFD). Previously, procurement fraud was investigated by a smaller

57 Id.
58 Id.
group housed within a larger division. The organizational change represents an increased focus and desire to expand the program’s capabilities and reach. During this reporting period, the PFD conducted comprehensive investigations involving corruption and fraud within IRS’s procurements, while promoting fraud awareness within the IRS procurement community.

The PFD continued its collaborative efforts with TIGTA’s Office of Audit (OA) in furtherance of its FY 2011 strategic initiatives. These initiatives promote enhanced communications with TIGTA’s OA to help identify contract fraud indicators. Strategies such as employing the use of advanced data mining techniques and fraud indicator training, augment the efforts of this strategic alliance and maximize resources dedicated to protecting the interest of American taxpayers.

The PFD proactively developed a pilot program that will increase its presence at IRS Regional Procurement Centers. The PFD mission will extend to the field divisions, where half of all contracting activities occur, by developing and transitioning seasoned field agents to effectively work procurement fraud investigations at the local level. The intended result is better communication with IRS procurement staff, closer exposure to the procurement process, and the ability to respond more quickly to procurement fraud indicators in the field.

In addition, to increase visibility and promote fraud awareness within the procurement community, the PFD recently created an innovative quarterly newsletter that was targeted toward and distributed to over 3,000 IRS procurement staff employees during this reporting period. The PFD continues to successfully pursue high-impact cases which have resulted in large monetary recoveries. For example, in FY 2011 the PFD’s investigations resulted in over $49 million in monetary recoveries for the United States Government.

The following cases are examples of procurement fraud investigative work performed during the reporting period:

**Default Judgment was Approved Under the Civil False Claims Act Against Controlled Quality Corporation of Maryland**

On June 23, 2011, in the District of Columbia, a Default Judgment was approved under the Civil False Claims Act against Controlled Quality Corporation (CQC) of Maryland. CQC provided printing services to the IRS related to IRS Service Center newsletters.  

CQC submitted false invoices of over $1 million on an IRS printing contract. These transactions involved the Government Printing Office (GPO) located in Washington, D.C., and payments were made with United States funds. Keith Slade was the owner of

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CQC, a defunct company that was privately held by Slade and formerly located in Bethesda, Maryland.

The GPO contracts with vendors in a variety of A 17-M Programs. One A 17-M Program allows for the procurement of color-copying/duplicating services as requisitioned from the GPO by various government departments and agencies through a multiple vendor listing. This program allows government agencies the opportunity to select a vendor from the agreement and allows for a streamlined method of procuring short-run, quick turnaround. Quantities ordered with the GPO program ranged from one to three thousand copies per order or larger. Vendor billing by the contract would be set by a schedule of prices submitted by each participating vendor. CQC was one of the vendors and had been a participant in the GPO A 17-M vendor program since 2001.

On June 9, 2001, CQC entered into an agreement with GPO to prepare and duplicate various documents for government “customer agencies” in the A 17-M Program. The IRS was one of those customer agencies. According to the terms of the contract, CQC stated the company had its own equipment, would not subcontract the work, and would be paid a fixed price per leaf as specified in the “Schedule of Prices” CQC agreed to in the A 17-M Program. The invoices contained inflated prices and 100 percent of the work was performed by subcontractors. However, CQC prepared and certified vouchers for payment attesting that they alone had prepared and performed the work. The Federal Government paid CQC approximately $499,782, while CQC paid their subcontractor approximately $61,678 for the work performed. The defendants are liable for approximately $1,499,346 (3 x $499,782), plus a penalty of up to $11,000 for each of the 28 false claims ($308,000) that were submitted to the Federal Government.

Darlene Mathis-Gardner Sentenced for Participating in a Conspiracy to Defraud the United States and Making False Claims on a Government Contract

On July 13, 2011, in Washington, D.C., Darlene Mathis-Gardner was sentenced for participating in a conspiracy to defraud the United States and for providing false information and documents to U.S. General Services Administration (GSA) contracting officers to obtain an award of a contract. She was sentenced to 18 months imprisonment, 36 months of probation, and ordered to pay $389,738 in restitution to Immigration and Customs Enforcement.

According to court documents, Mathis-Gardner learned of a GSA contract solicitation for certain interior design and project management services. From about March 2007 until

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61 The A 17-M is a GPO contract. The A 17-M contract specifies that the contractor will be subject to all of the provisions, specifications, etc. of GPO Publication 310.1 and 310.2, which prohibit the subcontracting of the “predominant function” of the contract. The contract identifies the scope of the specifications, or the predominant function, to be copying and duplicating work.
62 A “leaf” is an 11” x 17” sheet of paper that is folded and stitched together to create multiple pages (4 - 8.5” x 11”) of a newsletter or other publication.
64 Department of Justice Press Release dated July 31, 2011.
June 2007, Mathis-Gardner conspired and agreed to submit false information and documents to GSA officials regarding the background and qualifications of her company’s employees in order to convince GSA to award the contract to her company. Based on the false information and documents, GSA awarded the prime contract, worth approximately $1.3 million, to Mathis-Gardner and her company.65

From June 2007 through January 2009, Mathis-Gardner also provided false information to subordinates for them to use in preparing invoices. As a result, these invoices contained information that materially overstated the number of work hours performed on the contract. These invoices were subsequently presented to GSA for payment.66

The following are additional examples of cases involving external attempts to corrupt tax administration conducted during this reporting period:

**Rene Coleman Sentenced for Bribing an IRS Employee**

On April 27, 2011, Rene Coleman was sentenced to 18-months incarceration and two years of supervised release for bribing a public official. Coleman was also ordered to pay a $100 special assessment and to cooperate with the IRS with respect to any tax liability owed for 2008 and 2009.67

According to court documents, Coleman was indicted for offering a total of $3,100 to an IRS employee so that the employee would use her official position to reduce Coleman’s tax liabilities.68

**Kenneth Hua Sentenced for Impersonating an IRS Employee and Mail Fraud**

On July 18, 2011, in Hawaii, Kenneth Hua was sentenced on two counts of mail fraud and one count of impersonating a government official. Hua was sentenced to 17-months imprisonment, three years of supervised release, and ordered to pay $19,250 in restitution.69

Hua provided tax and accounting services to individuals for a fee under the business name of “Tri-Y-Enterprizes.” From about September 2007 to January 2008, Hua, a.k.a. Kenneth Yoshishige, attempted to defraud taxpayers by falsely impersonating an IRS employee using the name of Jon Nishimura.70

In 2007, Hua told a taxpayer that she was being audited by the IRS and that he was one of only two independent auditors working for the IRS in the State of Hawaii. In fact, the individual was not being audited by the IRS and Hua was not an employee. Hua told

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the taxpayer that the IRS was going to charge her a fee for the audit but his fees were cheaper. The IRS does not charge any fees for audits.

On March 19, 2008 and June 2, 2008, Hua told the taxpayer that he sent documents to the IRS through the U.S. Mail on her behalf, when he did not send any documents. Between September 2007 and December 2007, the taxpayer paid Hua approximately $19,250 for services he had not rendered.71

**Elaine Wagner Sentenced for Possessing False Papers to Defraud the United States**

On June 3, 2011, in Illinois, Elaine Wagner was sentenced on one count of possessing false papers to defraud the United States. Wagner was ordered to pay a $100 assessment, sentenced to two-years probation, and ordered to perform 150 hours of community service.72

Samuel and Elaine Wagner owed the IRS approximately $223,087 for tax years 2000, 2007, and 2008. The Wagners created a false document purporting to be from the IRS to the Bank & Trust Company, indicating that the IRS accepted an offer-in-compromise agreement regarding their Federal tax liability.73

**Ronald Hoodenpyle Pled Guilty for Failing to Surrender on Charges of Filing a False Lien**

On July 24, 2011, in Colorado, Ronald Roy Hoodenpyle pled guilty to one count of failure to surrender for service of sentence.74 He was sentenced to three-months imprisonment to be served consecutively with the undischarged term of imprisonment, one year of supervised release, and ordered to pay a $100 assessment.75

According to court documents, on June 17, 2010, Hoodenpyle was originally convicted of filing a false lien against an IRS revenue officer’s house, for which he was sentenced to 12-months imprisonment.76

On October 29, 2010, Hoodenpyle was ordered to surrender to serve his sentence at the Big Spring Federal Correctional Institution in Big Spring, Texas. Hoodenpyle did not report as ordered. Instead, he made preparations to go into hiding.

On November 8, 2010, Hoodenpyle was arrested in Grand Lake, Colorado. At the time of his arrest, Hoodenpyle had almost $1,300 in U.S. currency, along with a false photo identification in the name of one of his associates. Officers found within his car, among

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74 D. Colo. J. filed July 24, 2011.
75 Id.
76 D. Colo. Plea Agr. filed Apr. 8, 2011.
other items: a book entitled, “How to Create a New Identity;” a prepaid cell phone as well as a receipt indicating that the phone had been purchased in Arizona on November 2, 2010; two boxes of handgun ammunition; and a to-do list that included selling a truck and furniture.  

**Myran Butler Pled Guilty to Misusing the Department of the Treasury’s Symbol**

On June 15, 2011, in Utah, Myran Butler pled guilty to one count of misusing the Department of the Treasury’s symbol.  

According to court documents, Butler knowingly used, in connection with a business activity, the words, “Department of the Treasury,” or the “Internal Revenue Service” in a manner that could be reasonably interpreted as falsely conveying that such business activity was approved and authorized by the Department of the Treasury or the IRS.  

Butler falsely made and provided a client an IRS Form 668-D (Release of Levy/Release of Property From Levy). He fraudulently created this form by using an official form involving another person. This form contained the forged signature of an IRS tax specialist. Butler also provided this form to his client as proof that proceedings with the IRS had been completed.  

**Thanh Viet Jeremy Cao Pled Guilty to Filing False Liens Against United States Officials/IRS CI Employees**

On June 7, 2011, in Nevada, Thanh Viet Jeremy Cao pled guilty to six counts of filing a false lien or encumbrance against a United States officer or employee. He was detained pending sentencing.  

According to court documents, beginning about February 2007 and continuing until at least July 2010, Cao was involved in various matters involving Federal agencies, including the United States Securities and Exchange Commission, the United States Attorney’s Office for the Southern District of California, the United States Secret Service, and the IRS. Cao was specifically under investigation by the IRS’s CI Division pertaining to tax returns he prepared and caused to be filed with the IRS for himself and clients that claimed large refunds on Federal individual and corporate income tax returns, based upon fictitious income tax withholdings.  

In response to these various proceedings and investigations, Cao filed and caused to be filed 22 liens and encumbrances against the real and personal property of United States officers or employees affiliated with the courts or agencies involved in those proceedings and investigations, including four IRS CI employees. With respect to the

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77 D. Colo. Plea Agr. filed Apr. 8, 2011.  
IRS-CI lien victims, Cao filed or caused to be filed a “UCC Financing Statement” on or about December 31, 2008, and an “Affidavit of Obligation/Commercial Lien” on or about January 6, 2009. Cao knew when these lien documents were filed that the documents falsely claimed that each of the IRS-CI lien victims were “debtors” to him in the amount of at least $100,000.82

**Kathryn Turner Sentenced for Endeavoring to Corruptly Influence the Administration of the Internal Revenue Code**

On August 4, 2011, in California, Kathryn Turner pled guilty to one count of endeavoring to corruptly influence administration of the Internal Revenue Code.83 Turner was sentenced to imprisonment for a term of time served and three years of supervised release, with the condition of six-months home detention with a monitoring device. In addition, Turner was ordered to pay a $100 assessment and $30,000 in restitution.84

Beginning about February 1, 2006 and continuing up to February 17, 2006, Turner sent falsely made, altered, forged, and counterfeited copies of Form 668-D (Release of Levy/Release of Property From Levy) to representatives of businesses that possessed funds that had been levied by the IRS for back taxes. This action caused the businesses to then release the funds back to Turner instead of holding the funds pursuant to the IRS levy.85

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84 Id.
TIGTA’s Office of Inspections and Evaluations (I&E) provides responsive, timely, and cost-effective inspections and evaluations of challenging areas within the IRS, providing TIGTA with additional flexibility and capability to produce value-added products and services to improve tax administration. Its work is not a substitute for audits and investigations; in fact, its findings may result in subsequent audits and/or investigations.

The Office has two primary product lines: inspections and evaluations.

The purpose of inspections is to:

- Provide factual and analytical information;
- Monitor compliance;
- Measure performance;
- Assess the effectiveness and efficiency of programs and operations;
- Share best practices; and
- Inquire into allegations of waste, fraud, abuse, and mismanagement.

The purpose of evaluations is to:

- Provide in-depth reviews of specific management issues, policies, or programs;
- Address government-wide or multi-agency issues; and
- Develop recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective procedures.

The following summaries highlight some of the significant activities I&E has engaged in during this six-month reporting period:

**Inspection of the IRS’s Home-to-Work Programs**

This review was initiated at the request of the Assistant Secretary for Management and Chief Financial Officer of the Department of the Treasury. The report presents the results of our inspection to determine the IRS’s compliance with Title 31 United States Code (U.S.C.) Section (§) 1344, *Passenger Carrier Use*, and Treasury Directive 74-06, *Home-to-Work Transportation Controls*.86

TIGTA found that Criminal Investigation and the Small Business/Self-Employed (SB/SE) Division operated their Home-to-Work Programs for more than eight years without proper authorization from the Secretary of the Treasury. Additionally, only in this past year did

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86 TD 74-06, dated March 20, 2002, applies to all Department of the Treasury bureaus.
the SB/SE Division determine that its employees' home-to-work use of a government vehicle might result in a taxable fringe benefit to its employees.

Both CI and the SB/SE Division did not meet all recordkeeping requirements prescribed by 31 U.S.C. § 1344 and Treasury Directive 74-06. Specifically, the Home-to-Work and Extraordinary Use Vehicle Log used by special agents did not capture all use outside their normal tour of duty. Limited guidance was available for special agents to use in preparing this log and the Vehicle Expense Report. Mileage logs from fuel compliance officers and fuel compliance agents were missing for some months, manual logs did not always provide enough detail to determine whether home-to-work use occurred, and total costs of the Fuel Compliance Home-to-Work Program were not documented.

Supervisory special agents and managers in Fuel Compliance were not closely reviewing logs and reports for accuracy and indications of fraud or misuse. Costs of accidents that were home-to-work related were not tracked in accordance with Treasury Directive 74-06.

TIGTA recommended the Chief of CI, and the Commissioner of the SB/SE Division, revise procedures to ensure that home-to-work transportation requests are completed in a timely manner. TIGTA made other recommendations addressing recordkeeping, internal controls, and taxable fringe-benefit determinations.

In response, IRS officials agreed with these recommendations and stated that they have taken or plan to take action to improve internal controls.

**Report Reference No. 2011-IE-R003**

**Inspection of the Agency-Wide Shared Services Fleet Program**

This project was initiated as part of our recent inspection of the IRS Vehicle Home-to-Work Programs. The issues presented in this report are unique to the Agency-Wide Shared Services (AWSS) Program and are not directly related to the home-to-work issue we previously reviewed; therefore, we are reporting them separately.

TIGTA found that monthly bills from the General Services Administration (GSA) were not always verified against receipts for repairs. New procedures that went into effect October 1, 2010, should eliminate the possibility that duplicate or erroneous repair bills could be paid. TIGTA also found that justifications were not always prepared as required to substantiate the need for vehicles used less than the minimum miles recommended by GSA. In addition, the requirement for certifying the validity of an individual's driver's license was not included in AWSS guidance, as required by the Department of the Treasury.

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TIGTA recommended that:

- The Director, Real Estate and Facilities Management (REFM), ensure that justifications are provided for vehicles used for fewer miles than those recommended in GSA guidelines; and
- The Internal Revenue Manual be revised to require drivers to certify that they are properly licensed to drive AWSS fleet vehicles.

In their response to the report, IRS officials stated that they agreed with TIGTA’s recommendations. The AWSS Fleet Program manager will request that REFM territory managers ensure that the business units provide appropriate written justifications. REFM will revise the Motor Vehicle Internal Revenue Manual to require drivers to self-certify that they possess a valid driver’s license on the mileage log. The AWSS vehicle coordinators will review logs monthly.

Report Reference No. 2011-IE-R005

Follow-up Review of Controls Over Religious Compensatory Time

This project was a follow-up review to TIGTA’s February 2009 report on the IRS’s controls over religious compensatory time (RCT). TIGTA conducted this follow-up inspection to determine if proposed corrective actions were implemented and if they significantly reduced the potential for employees to accumulate excessive RCT balances.

While the IRS has partially implemented corrective actions related to the recommendations contained in TIGTA’s February 2009 inspection report, TIGTA believes additional actions would further strengthen the controls to deter and prevent abuse of RCT. TIGTA found that, between February 2008 and June 2010, the overall number of employees with RCT balances decreased by approximately 33 percent, and the number of employees with excessive RCT balances decreased by nearly 37 percent. TIGTA also found that only about two percent of IRS employees have RCT balances, and the vast majority of these employees (about 81 percent) had relatively low balances.

Although the issue of excessive balances is not widespread within the IRS, the accumulation of excessive RCT balances increases the risk that they may be used for unintended purposes. This includes earning the RCT and not routinely using it with the intention of receiving a lump sum payment for the balance upon separation or retirement; using RCT in place of annual or sick leave; or allowing employees to earn RCT in lieu of overtime, compensatory time, or credit hours.

Additionally, TIGTA determined a few employees earned hundreds of overtime or credit hours without first repaying the advanced RCT balances they were carrying. This is due

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88 TIGTA, To Prevent the Possible Widespread Abuse of Religious Compensatory Time, Additional Controls are Needed (Reference Number 2009-IE-R002, dated February 27, 2009).
in part to the IRS’s decision not to include this requirement in its revised 2009 National Agreement with the Nation Treasury Employees Union (NTEU).

TIGTA recommended the IRS Human Capital Officer modify procedures to:

- Require all employees (bargaining and non-bargaining) repay advanced RCT before approving voluntary requests to earn overtime, compensatory time, or credit hours; and
- Develop a standardized process and mechanism for requesting, authorizing, and documenting the use of RCT.

TIGTA further recommended that the IRS Human Capital Officer mandate that all managers and timekeepers receive training on the regulations and IRS policies concerning requesting and using RCT.

IRS management agreed with these recommendations affecting bargaining employees, and plans to assess the status of RCT issues and consider proposing changes related to RCT in negotiations for the next labor agreement between the IRS and NTEU, which should start in October 2013.

IRS management agreed to consider mandatory RCT training for managers only, and stated that they plan to use Internet communications to make both managers and timekeepers aware of their responsibility to adhere to RCT requirements.

Report Reference No. 2011-IE-R004
TIGTA’s International Programs

In 2008, the IRS embarked on an effort to increase voluntary compliance among taxpayers involved in cross-border transactions. This effort includes both structural and operational changes. The IRS’s strategic initiatives include improving cooperation with treaty partners and the international community, enhancing its partnership with tax preparers involved in the preparation of international/U.S. territory returns, and detecting and deterring financial criminal activity and abusive transactions that involve offshore entities and cross-border transactions. TIGTA is committed to evolving its oversight model to address the global expansion of Federal tax administration and related IRS international initiatives.

To address this challenge, TIGTA developed a strategic approach for providing oversight of the IRS’s international programs and activities through audits, inspections, evaluations and law enforcement liaison and outreach. TIGTA’s International Program will be implemented over a multi-year period as we increase our capability to address the complex international tax administration environment.

International Outreach

TIGTA’s international outreach effort will advance its strategic objective of heightening IRS integrity awareness among millions of U.S. citizens living abroad, including military personnel stationed overseas, in order to provide a deterrent effect against waste, fraud, and misconduct within Federal tax administration. It will also enhance TIGTA’s investigative programs to identify and mitigate potential corruption in IRS international operations.

TIGTA’s International Program will strive to work closely with IRS personnel assigned to foreign countries to promote the economy, efficiency, and effectiveness of an increasingly global system of U.S. tax administration. TIGTA will also seek to partner with the U.S. Departments of State and Defense, and other U.S. Government agencies to integrate TIGTA’s message of integrity in Federal tax administration into the broader framework of the Government’s interaction with its citizens living abroad.

International Revenue Agency Partnerships/Law Enforcement Liaison

TIGTA’s ability to execute its Federal tax administration oversight responsibilities outside U.S. borders is critically dependent on its capacity to establish effective working relationships with foreign revenue collection agencies in approximately 90 foreign governments with whom the United States has a tax treaty or a Tax Information Exchange Agreement. TIGTA’s International Program will seek to build partnerships directly with these foreign governmental entities, in addition to international law enforcement organizations, and prosecutorial entities in governments around the world. TIGTA will also engage other U.S. Government agencies who share the organizational
mission of establishing these effective U.S. international working relationships through shared training, assistance, and other mutually beneficial international activities.

International Audit Activities

TIGTA’s work includes involving international tax administration as part of its annual audit planning process. However, the amount of work conducted in this area in any given year is always limited by other competing priorities. Recognizing the growing importance of international tax administration, TIGTA created an International Tax Program Strategy that laid out a uniform methodology to monitor the IRS’s efforts around international tax administration. Since the implementation of this strategy, TIGTA has issued several reports about international tax administration that have been in previous TIGTA Semiannual Reports to Congress.

- **Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States** (Reference No. 2010-40-121, dated September 15, 2010).
- **Actions Are Being Taken to Address the Impact That International Financial Reporting Standards Will Have on Tax Administration** (Reference No. 2010-30-112, dated September 8, 2010).
- **Improvements Are Needed to Reduce Erroneous Foreign Earned Income Exclusion Claims** (Reference No. 2010-40-091, dated August 16, 2010).
- **Procedures Need to Be Developed for Collection Issues Associated With Individual Taxpayer Identification Numbers** (Reference No. 2010-40-040, dated March 29, 2010).

For this six-month reporting period, TIGTA issued the following reports related to international tax administration:

**Improvements Are Needed to Ensure the Central Withholding Agreement Program Fosters Nonresident Alien Withholding Compliance**

Internal Revenue Code Section 1441 generally requires that any U.S. or foreign person having control of certain U.S. source income must withhold 30 percent of the gross income prior to any payments made to a nonresident alien (NRA) individual or partnership. The purpose of a Central Withholding Agreement (CWA) is to reduce the 30 percent withholding tax rate to be more in line with an NRA’s annual projected tax liability. However, if NRAs who enter into CWAs are allowed to improperly reduce their withholding, the Federal Government’s interest may not be protected.

The IRS’s CWA Program management had taken positive actions to ensure that sensitive information was not transmitted via e-mail to NRAs or their representatives. However, managerial oversight of the CWA Program needed improvement. TIGTA
found that there was no managerial guidance or quality review process to ensure that cases were properly processed. In 25 of 133 closed cases, tax specialists did not take timely and appropriate action. In 37 closed cases, documentation was missing and/or incomplete. TIGTA found inconsistencies in 13 of 47 CWA closed cases with approving and denying CWA applications based on the timeliness of the submission.

TIGTA also found that CWA specialists did not have detailed guidance for making a determination of ordinary and necessary business expenses for justifying a reduction of income for determining the proper withholding rate under CWAs. In addition, the methodology for conducting site visits was inconsistent, as was the amount of information captured in the site visitation reports. The CWA Program had not established performance goals, and current measures were inadequate to determine whether the Program was fostering NRA compliance.

TIGTA made several recommendations, including that the IRS:

- Establish performance goals and identify a method for measuring the level to which the CWA Program is fostering compliance;
- Establish a quality review process and managerial guidance to ensure effective oversight;
- Provide additional training to CWA tax specialists on evaluating ordinary and necessary business expenses submitted with the CWA requests; and
- Revise procedures to provide clearer guidance that includes a methodology for conducting site visits and preparing site visitation reports.

IRS management agreed with most of the recommendations and stated that they plan to take appropriate corrective actions.

Reference No. 2011-30-117

The 2009 Offshore Voluntary Disclosure Initiative Increased Taxpayer Compliance, but Some Improvements Are Needed

Taxpayers with undisclosed foreign accounts or assets who do not submit a voluntary disclosure are noncompliant and run the risk of detection by the IRS. If caught, these taxpayers face the imposition of substantial penalties, including the fraud and foreign information return penalties, as well as an increased risk of criminal prosecution. By making an offshore voluntary disclosure, taxpayers can become compliant, avoid substantial civil penalties, and generally eliminate the risk of criminal prosecution.

The IRS’s voluntary disclosure practices were effective, and cases were being appropriately assigned and verified even with the unusually high volume of disclosure requests received and accepted. However, TIGTA found that some improvements were needed.

TIGTA’s review of 60 closed voluntary disclosure cases showed that 18 cases had no evidence of the taxpayers reconciling the unreported income in their offshore accounts.
to their amended or newly filed delinquent tax returns. In 28 cases, information from the taxpayers’ financial accounts either was not captured or was incorrectly transcribed on the data collection system used for current and subsequent data mining efforts. In 31 cases, voluntary disclosure agreements were not printed on IRS watermarked paper or initialed by revenue agents on each page. Thus, it was impossible to ensure that taxpayers made no alterations to the original document.

As a result, TIGTA recommended that the IRS:

- Implement a requirement for taxpayers to provide a detailed reconciliation of unreported income;
- Develop a quality review process to ensure that all data relating to voluntary disclosures are properly transcribed for future data mining; and
- Require revenue agents to initial each page of the voluntary disclosure agreement before submitting the agreements to taxpayers for their signature.

IRS management agreed with two of TIGTA’s three recommendations. They stated that a reconciliation of all unreported taxpayer income from offshore accounts is already a requirement of the 2011 Offshore Voluntary Disclosure Initiative. They further stated that they plan to take appropriate corrective action for developing a quality review process to ensure that all data relating to voluntary disclosures are properly transcribed for future data mining. IRS management disagreed with the recommendation to require revenue agents to initial each page of the voluntary disclosure agreements before submitting the agreements to taxpayers for their signature.

Reference No. 2011-30-118
American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was enacted on February 17, 2009. The Recovery Act presented significant challenges to all Federal agencies as they move to implement provisions quickly while attempting to minimize risk and meet increased standards for transparency and accountability. With its 56 tax provisions (20 related to individual taxpayers and 36 related to business taxpayers), the Recovery Act poses significant challenges to the IRS as the Nation’s tax collection agency and administrator of the tax laws.

TIGTA has issued numerous reports related to the IRS’s efforts to implement Recovery Act tax provisions. For this six-month reporting period, TIGTA issued the following significant reports:

Individuals Who Are Not Authorized to Work in the United States Were Paid $4.2 Billion in Refundable Credits

Many individuals who are not authorized to work in the United States, and thus not eligible to obtain a Social Security Number (SSN) for employment, earn income in the United States. The IRS provides such individuals with an Individual Taxpayer Identification Number (ITIN) to facilitate their filing of tax returns. Although the law prohibits aliens residing without authorization in the United States from receiving most Federal public benefits, an increasing number of these individuals are filing tax returns claiming the Additional Child Tax Credit (ACTC), a refundable tax credit intended for working families. The payment of Federal funds through this tax benefit appears to provide an additional incentive for aliens to enter, reside, and work in the United States without authorization, which contradicts Federal law and policy to remove such incentives.

Claims for the ACTC by ITIN filers have increased from $924 million in Processing Year 2005 (the calendar year in which the tax return was processed) to $4.2 billion in Processing Year 2010. Legislation is needed to clarify whether refundable tax credits such as the ACTC may be paid to those who are not authorized to work in the United States.

The IRS’s Examination function does not effectively and efficiently work ITIN cases. Additionally, employees in the Accounts Management Taxpayer Assurance Program are not taking steps to notify taxpayers when it is obvious their SSNs and names have been compromised.

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TIGTA also found a problem with some tax preparation software programs. These programs automatically take the taxpayer identification number and enter it as the identifying number for the taxpayer’s Wage and Tax Statements. This causes the Wage and Tax Statements to be inaccurate for most ITIN filers.

TIGTA recommended that the IRS work with the Department of the Treasury to seek clarification on whether refundable tax credits may be paid to individuals who are not authorized to work in the United States. TIGTA also recommended that the IRS require individuals filing with ITINs and claiming the ACTC to provide specific verifiable documentation to support that their dependents meet the qualifications for the credit, including residency, and that questionable Child Tax Credits (CTC) and ACTC claims on ITIN returns are worked as effectively and efficiently as possible. In addition, TIGTA recommended that the IRS ensure that taxpayers are notified when their SSNs are compromised and that commercial tax-preparation software programs do not auto-populate an ITIN onto Wage and Tax Statements.

IRS management agreed with these recommendations and stated that they plan to discuss with the Department of the Treasury the issue of ITIN filers’ eligibility for the ACTC. However, management did not agree to require additional documentation to support CTC and ACTC claims on ITIN returns.

**Reference No. 2011-41-061**

**IRS Accounting for American Recovery and Reinvestment Act Fund Expenditures During the Period of October 1, 2009 through March 31, 2010**

This report presented the results of TIGTA’s inspection to determine the IRS’s compliance with OMB’s Implementing Guidance for the Recovery Act. The overall objective of this inspection was to verify the accuracy of the IRS’s accounting and timeliness of reporting Recovery Act procurement expenditures for the period October 1, 2009 through March 31, 2010.

The IRS was in substantial compliance with the OMB Implementing Guidance. For Recovery Act expenditures, the IRS executed adequate internal controls to ensure timely and accurate reporting; however, due to an oversight by the preparer, the IRS incorrectly reported amounts totaling approximately $4 million on two of the 26 weekly reports. IRS officials corrected these errors on later reports.

During the period October 1, 2009 through March 31, 2010, the IRS initiated procurement actions purchasing goods and services totaling over $22 million. The IRS spent almost $19 million on the Health Insurance Tax Credit Administration and

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90 OMB has the primary responsibility for developing government-wide rules and procedures to ensure that funds are awarded and distributed in a prompt and fair manner; that uses of funds are transparent to the public; and that steps are taken to mitigate waste, fraud, and abuse.

$3.5 million in Recovery Act administrative costs. Further, the IRS appropriately obtained 100 percent of the more than $185,000 available for discounts on Recovery Act-related procurements.

The IRS submitted timely financial reports fulfilling OMB’s requirement to transmit weekly reports showing cumulative obligations and gross outlay activities. This process assisted in ensuring unprecedented transparency into the IRS’s use of Recovery Act funds.

TIGTA made no recommendations following this inspection.

Reference No. 2011-IE-R007
An Organization That Values Its People

TIGTA’s Special Agent Basic Training Program Accreditation

On April 7, 2011, the Federal Law Enforcement Training Accreditation (FLETA) Board granted accreditation status to TIGTA’s Special Agent Basic Training Program. To achieve accreditation, an agency must undergo a rigorous assessment of its academy and/or program to ensure compliance with the FLETA standards. These professional standards were developed to increase agency effectiveness and efficiency.

FLETA Board Member Angela Hrdlicka noted that TIGTA has the reputation for being innovative and thorough in their documentation of meeting the FLETA standards. Michael Radetic, TIGTA’s Assistant Special Agent in Charge, accepted the certificate awarding accreditation.

Pictured from left to right: Special Agent Marvin Weindorff, Special Agent Jacquelyn Ellison, Assistant Special Agent in Charge Mike Radetic, Employee Development Specialist Kay Arthur, and Training Specialist Annette Scanlon.
Congressional Testimony

During this reporting period, Inspector General J. Russell George testified before Congress on three occasions and submitted written testimony to Congress on one occasion. The following are summaries of his testimony.

On April 15, 2011, Mr. George testified before the House Committee on Appropriations, Subcommittee on Financial Services and General Government on its “Budget hearing with the Treasury Inspector General for Tax Administration.” Mr. George described how TIGTA promotes accountability within the IRS by providing oversight of its budget and identifying the most significant challenges the IRS faces. These challenges include:

- The security of IRS employees and infrastructure;
- The modernization of the IRS’s information technology systems;
- Human capital matters;
- Taxpayer rights; and
- Erroneous and improper payments and credits.

In the last category, Mr. George mentioned TIGTA’s report on the Earned Income Tax Credit (EITC). This report revealed that the IRS failed to comply with a requirement to provide quantifiable targets to reduce improper EITC payments. The IRS itself estimates that 23 to 28 percent of these credits are wrongfully paid. In FY 2009, this equated to $11 to $13 billion, which is the entire annual operating budget of the IRS.

Mr. George also discussed the Additional Child Tax Credit as an example of another refundable credit not implemented effectively. In 2009, TIGTA reported a significant increase in the Credit by filers who were unable to obtain SSNs. However, these individuals filed for and received the Credit. For tax year 2000, these individuals received $62 million; for tax year 2007, the amount received reached as high as $1.8 billion.

In addition, Mr. George addressed the Tax Gap, another serious challenge confronting the IRS. A significant amount of income remains unreported and unpaid despite IRS enforcement efforts and an estimated voluntary compliance rate of 84 percent. The IRS estimated the gross Tax Gap for Tax Year 2001 – the most current estimate available – to be approximately $345 billion. The IRS also faces significant challenges in obtaining complete and timely compliance data and developing methods necessary to interpret those data. Even with improved data collection, the IRS needs broader strategies and better research to determine which actions are most effective in addressing taxpayer noncompliance. The IRS’s strategy for reducing the Tax Gap largely depends on funding for additional compliance resources as well as legislative changes.

Mr. George also apprised the Subcommittee of the President’s FY 2012 budget request for TIGTA. Included in this request was a justification for an additional 29 Full-Time
Equivalents to handle oversight responsibilities of the IRS’s implementation of the Affordable Care Act.

On May 25, 2011, Mr. George testified before the House Committee on Ways and Means, Subcommittee on Oversight during its hearing on “Improper Payments in the Administration of Refundable Tax Credits.” He stated that the IRS has annually reported billions in EITC improper payments since it began reporting estimates to Congress in 2002, with little improvement shown in reducing these payments. Furthermore, the IRS’s June 14, 2010 report to TIGTA did not include required strategies or quantifiable targets to reduce EITC improper payments. IRS management noted that it had not set reduction targets because it has to balance compliance and enforcement resources among all income groups. Mr. George also highlighted the Child Tax Credit and the Additional Child Tax Credit (ACTC). The appropriations for the two credits in FY 2010 were $54.7 billion for the EITC and $22.7 billion for the ACTC. In contrast, the IRS’s total FY 2012 budget request is $13.3 billion.

Although each of these refundable credits provides benefits to individuals, the unintended consequence is that they are often the targets of unscrupulous individuals who file erroneous claims for the credits. In essence, individuals can obtain money that they did not earn and to which they are not entitled simply by claiming a refundable tax credit. Refundable credits can result in tax refunds even if no income tax is paid or withheld; that is, the credits can exceed the liability for the tax. In its June 14, 2010 report, the IRS noted that it has found that refundable credits of significant amounts attract fraud.

Mr. George reported that in Tax Year 2000, 62,000 Individual Taxpayer Identification Number (ITIN) filers received $62 million in ACTCs. This has since grown to 2.3 million ITIN filers claiming ACTCs totaling $4.2 billion in 2010.93 This increase is due in part to changes in the law, which altered the eligibility criteria and calculation. Another reason for the increase in claims is that individuals are filing returns for multiple years to obtain the ACTC for prior-year tax returns, e.g., filing for tax years 2007, 2008, and 2009. In 2010, approximately 238,000 ITIN filers submitted over 608,000 tax returns for multiple years and claimed just over $1 billion in ACTC on those tax returns.

As part of our Recovery-Act oversight, TIGTA assessed the IRS’s administration of the Homebuyer Credit. The Worker, Homeownership, and Business Assistance Act of 200994 revised, extended, and expanded the Homebuyer Credit allowed by previous acts to a broader range of home purchases and added new documentation requirements. TIGTA recommended that the IRS require taxpayers to supply documentation with their tax return to substantiate a home purchase. IRS management

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92 IRS, Initial Report on Earned Income Tax Credit (EITC) Improper Payments, pursuant to Executive Order 13520: Reducing Improper Payments (June 14, 2010).
initially responded that such a requirement would be burdensome for individuals and the IRS. The IRS also stated that it did not have math error authority to disallow the credit during tax return processing even if it did ask for documentation and did not receive it. The IRS initially took no steps to obtain this math error authority. After the issuance of TIGTA’s first interim report on that credit,95 Congress passed legislation requiring documentation for the credit and provided the IRS with math error authority to disallow the credit if the documentation was not provided.96

On June 8, 2011, Mr. George submitted written testimony to the Senate Committee on Appropriations, Subcommittee on Financial Services and General Government on its hearing on “FY 2012 I.R.S. Budget.” Mr. George noted that the IRS is the largest component of the Department of the Treasury and has primary responsibility for administering the Federal tax system. The IRS must strive to enforce the tax laws fairly and efficiently while balancing service and education to promote voluntary compliance and reduce taxpayer burden. To accomplish these efforts, the IRS requested in its proposed FY 2012 budget approximately $13.3 billion97 in total appropriated resources. The total appropriations amount is an increase of $1.138 billion, or 9.4 percent, more than the FY 2010 enacted level.

The Administration seeks funding increases from 3 to 26 percent over FY 2010 enacted operating levels for all of the appropriation accounts. The budget request includes a net increase in IRS staffing of an additional 5,100 employees.

The $1.138 billion increase consists of the following:

Changes to the Base

- Adjustment to Reach FY 2011 President’s Budget Level98 – Increase of $402 million, including a $123 million increase related to the Business Systems Modernization appropriation.
- Maintaining Current Levels – Increase of $86 million.
- Program Reinvestment – Increase of $1.5 million (one-time cost).

These increases are offset by a decrease of $190 million in efficiencies and savings, including a $1 million decrease related to the Modernization appropriation.

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95 Internal Revenue Service Faces Significant Challenges in Verifying Eligibility for the First-Time Homebuyer Credit (Reference Number 2009-41-144, dated September 29, 2009).
97 The Fiscal Year 2012 budget request also includes approximately $138 million from reimbursable programs and $204 million from user fees for a total operating level of $13.6 billion.
98 The initiatives included in the Fiscal Year 2011 budget submission are separate from the $839 million in program increases included in the Fiscal Year 2012 budget submission.
Program Changes

- Program Increases – Increase of $839 million, including an increase of $52 million in the Operations Support appropriation for costs related to maintenance of deployed Modernization systems. This $52 million increase is offset by a corresponding decrease of $52 million in the Modernization appropriation for FY 2012.

On September 22, 2011, Mr. George testified before the House Committee on Ways and Means Subcommittee on Select Revenue Measure and the Subcommittee on Oversight during a joint hearing on “Energy Tax Policy and Tax Reform.” Mr. George addressed the IRS’s administration of energy-related tax credits.

Specifically, he reported on nonrefundable credits and deductions enacted in the Recovery Act to encourage:

- Individuals to purchase motor vehicles that operate on clean, renewable sources of energy;
- The purchase of energy-efficient property for an individual’s principal residence that is designed to reduce heat loss during cold months or heat gain during warm months;
- The purchase of renewable sources of energy for use in a home; and
- Additional deductions for State sales taxes and excise taxes for qualified new motor vehicle purchases.

He further stated that once tax legislation is enacted, the IRS reviews the law to determine what actions it must take to implement the law to ensure that legislated requirements will be satisfied. Actions taken by the IRS often include creating new tax forms, updating publications, revising internal operating procedures, and updating computer programs for processing tax returns.

Because credits and deductions have specific objectives and represent a significant cost in forgone tax revenue, it is important that the IRS have processes in place to help ensure that associated claims meet the criteria set forth in the law. The IRS uses certain methods to verify the accuracy and eligibility of tax benefits and credits claimed on tax returns. The validation process can occur either before or after a tax return is processed and before funds have been released. Verifying the accuracy of claims and eligibility for tax deductions and credits before a tax return has been processed and prior to the release of funds is the most efficient and effective approach for the IRS to prevent erroneous or improper claims. These preventive identification efforts include the development of computer programs to detect errors. When the IRS detects errors, it rejects the tax returns and sends them back to the transmitter to be corrected. Once a tax return is received (if paper filed) or accepted (if electronically filed) by the IRS, selected information from the tax return is validated and/or verified by the IRS. If a tax return does not pass validation/verification, the tax return is forwarded to the IRS Error Resolution function to be manually reviewed and corrected.
Our reviews of the effectiveness of IRS processes to identify and prevent wrongful claims for these energy-related credits and deductions identified erroneous claims for millions of dollars in these credits and deductions.

For the Plug-in Electric and Alternative Motor Vehicle Credit, TIGTA recommended that the IRS:

- Develop procedures to disallow credits for vehicles with nonqualifying years;
- Initiate actions to recover erroneous credits; and
- Either develop a coding system to identify vehicle makes and models or require the Vehicle Identification Number on the forms used to claim Plug-in Electric and Alternative Motor Vehicle Credits.

The IRS agreed with the recommendations and plans to update procedures to require a review of the make, model, and date vehicles were in service to ensure that credits are only distributed for qualifying vehicles.

For the Residential Energy Credit, TIGTA recommended that the IRS:

- Revise the tax form used to claim Residential Energy Credits to request specific information supporting key eligibility requirements;
- Examine the tax returns of the 362 individuals who appeared to be ineligible to claim the credit; and
- Implement processes to identify and review tax returns filed by prisoners or underage individuals to verify whether they qualify for the Residential Energy Credits claimed.

IRS officials agreed to revise the tax form and develop processes to identify claims submitted by prisoners or underage individuals and agreed to review the returns of the individuals we identified and audit those returns if warranted.
Audit Statistical Reports
Reports With Questioned Costs

TIGTA issued two audit reports with questioned costs during this semiannual reporting period. The phrase “questioned costs” means costs that are questioned because of:

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

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

<table>
<thead>
<tr>
<th>Report Category</th>
<th>Number</th>
<th>Questioned Costs (in thousands)</th>
<th>Unsupported Costs (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reports with no management decision at the beginning of the reporting period</td>
<td>6</td>
<td>$164,824</td>
<td>$82,147</td>
</tr>
<tr>
<td>2. Reports issued during the reporting period</td>
<td>2</td>
<td>$28,656</td>
<td>$0</td>
</tr>
<tr>
<td>3. Subtotals (Item 1 plus Item 2)</td>
<td>8</td>
<td>$193,480</td>
<td>$82,147</td>
</tr>
<tr>
<td>4. Reports for which a management decision was made during the reporting period.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Value of disallowed costs</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>b. Value of costs not disallowed</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)</td>
<td>8</td>
<td>$193,480</td>
<td>$82,147</td>
</tr>
<tr>
<td>6. Reports with no management decision within six-months of issuance</td>
<td>6</td>
<td>$164,824</td>
<td>$82,147</td>
</tr>
</tbody>
</table>

99 See Appendix II for identification of audit reports involved.
100 “Questioned costs” includes “unsupported costs.”
Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued six audit reports during this semiannual reporting period with the recommendation that funds be put to better use. The phrase “recommendation that funds be put to better use” means funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- Reductions in outlays;
- Deobligations of funds from programs or operations;
- Costs not incurred by implementing recommended improvements related to operations;
- Avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements;
- Prevention of erroneous payment of the following refundable credits: Earned Income Tax Credit and Additional Child Tax Credit; or
- Any other savings that are specifically identified.

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

<table>
<thead>
<tr>
<th>Report Category</th>
<th>Number</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reports with no management decision at the beginning of the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>2. Reports issued during the reporting period</td>
<td>6</td>
<td>$6,886,325</td>
</tr>
<tr>
<td>3. Subtotals (Item 1 plus Item 2)</td>
<td>6</td>
<td>$6,886,325</td>
</tr>
<tr>
<td>4. Reports for which a management decision was made during the reporting period</td>
<td>6</td>
<td>$6,886,325</td>
</tr>
<tr>
<td>a. Value of recommendations to which management agreed</td>
<td>5</td>
<td>$257,703</td>
</tr>
<tr>
<td>i. Based on proposed management action</td>
<td>5</td>
<td>$257,703</td>
</tr>
<tr>
<td>ii. Based on proposed legislative action</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>b. Value of recommendations to which management did not agree</td>
<td>2</td>
<td>$6,628,622</td>
</tr>
<tr>
<td>5. Reports with no management decision at the end of the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(Item 3 minus Item 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Reports with no management decision within 6 months of issuance</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

101 See Appendix II for identification of audit reports involved.
102 Includes one report in which the IRS partially agreed with the values associated with the recommendations.
Reports With Additional Quantifiable Impact on Tax Administration

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

Definitions of these additional measures are:

**Increased Revenue:** Assessment or collection of additional taxes.

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

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

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

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

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

**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.
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.

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

<table>
<thead>
<tr>
<th>Outcome Measure Category</th>
<th>Number of Reports 103</th>
<th>Number of Taxpayer Accounts</th>
<th>Dollar Value (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Revenue</td>
<td>5</td>
<td>20,559</td>
<td>$2,435,132</td>
</tr>
<tr>
<td>Revenue Protection</td>
<td>5</td>
<td>2,382,460</td>
<td>$6,590,801</td>
</tr>
<tr>
<td>Reduction of Burden on Taxpayers</td>
<td>6</td>
<td>6,060,854</td>
<td>$9,053</td>
</tr>
<tr>
<td>Taxpayer Rights and Entitlements at Risk</td>
<td>10</td>
<td>106,468</td>
<td>$30,894</td>
</tr>
<tr>
<td>Taxpayer Privacy and Security</td>
<td>2</td>
<td>411,828</td>
<td>$0</td>
</tr>
<tr>
<td>Inefficient Use of Resources</td>
<td>7</td>
<td>0</td>
<td>$12,692</td>
</tr>
<tr>
<td>Reliability of Management Information</td>
<td>7</td>
<td>0</td>
<td>$734,551</td>
</tr>
<tr>
<td>Protection of Resources</td>
<td>2</td>
<td>0</td>
<td>$48</td>
</tr>
</tbody>
</table>

Management did not agree with the outcome measures in the following reports:

- Increased Revenue: Reference Numbers 2011-30-084, 2011-30-112, and 2011-30-114;
- Revenue Protection: Reference Numbers 2011-40-059 and 2011-41-083;
- Reduction of Burden on Taxpayers: Reference Numbers 2011-40-058 and 2011-30-112;
- Inefficient Use of Resources: Reference Numbers 2011-20-044, 2011-20-074, 2011-20-111, and 2011-20-099; and

103 See Appendix II for identification of audit reports involved.
The following reports contained quantifiable impacts other than the number of taxpayer accounts and dollar value:

- Reduction of Burden on Taxpayers: Reference Number 2011-40-073;
- Taxpayer Rights and Entitlements at Risk: Reference Number 2011-30-093;
- Taxpayer Privacy and Security: Reference Number 2011-40-054;
- Protection of Resources: Reference Number 2011-10-086.
# Investigations Statistical Reports

## Significant Investigative Achievements

**April 1, 2011 – September 30, 2011**

<table>
<thead>
<tr>
<th>Complaints/Allegations Received by TIGTA</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints against IRS Employees</td>
<td>2,382</td>
</tr>
<tr>
<td>Complaints against Non-Employees</td>
<td>2,366</td>
</tr>
<tr>
<td><strong>Total Complaints/Allegations</strong></td>
<td><strong>4,748</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Status of Complaints/Allegations Received by TIGTA</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investigations Initiated</td>
<td>1,560</td>
</tr>
<tr>
<td>Referred to IRS for Action</td>
<td>147</td>
</tr>
<tr>
<td>Referred to IRS for Information Only</td>
<td>1,008</td>
</tr>
<tr>
<td>Referred to a Non-IRS Entity&lt;sup&gt;104&lt;/sup&gt;</td>
<td>2</td>
</tr>
<tr>
<td>Closed with No Referral</td>
<td>1,367</td>
</tr>
<tr>
<td>Closed with All Actions Completed</td>
<td>726</td>
</tr>
<tr>
<td><strong>Total Complaints</strong></td>
<td><strong>4,748</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investigations Opened and Closed</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Investigations Opened</td>
<td>1,800</td>
</tr>
<tr>
<td>Total Investigations Closed</td>
<td>1,956</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Accomplishments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Embezzlement/Theft Funds Recovered</td>
<td>$65,346,296</td>
</tr>
<tr>
<td>Court Ordered Fines, Penalties and Restitution</td>
<td>$18,924,070</td>
</tr>
<tr>
<td>Out-of-Court Settlements</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Financial Accomplishments</strong></td>
<td><strong>$84,270,366</strong></td>
</tr>
</tbody>
</table>

<sup>104</sup> A non-IRS entity includes other law enforcement entities or Federal agencies.
### Status of Closed Criminal Investigations

<table>
<thead>
<tr>
<th>Criminal Referrals 105</th>
<th>Employee</th>
<th>Non-Employee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Referred – Accepted for Prosecution</td>
<td>33</td>
<td>46</td>
<td>79</td>
</tr>
<tr>
<td>Referred – Declined for Prosecution</td>
<td>384</td>
<td>316</td>
<td>700</td>
</tr>
<tr>
<td>Referred – Pending Prosecutorial Decision</td>
<td>14</td>
<td>34</td>
<td>48</td>
</tr>
<tr>
<td><strong>Total Criminal Referrals</strong></td>
<td><strong>431</strong></td>
<td><strong>396</strong></td>
<td><strong>827</strong></td>
</tr>
<tr>
<td>No Referral</td>
<td>523</td>
<td>571</td>
<td>1,094</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Criminal Dispositions 106</th>
<th>Employee</th>
<th>Non-Employee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guilty</td>
<td>19</td>
<td>72</td>
<td>91</td>
</tr>
<tr>
<td>Nolo Contendere (no contest)</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Pre-trial Diversion</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Deferred Prosecution 107</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Not Guilty</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dismissed 108</td>
<td>4</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total Criminal Dispositions</strong></td>
<td><strong>29</strong></td>
<td><strong>82</strong></td>
<td><strong>111</strong></td>
</tr>
</tbody>
</table>

### Administrative Dispositions on Closed TIGTA Investigations 109

<table>
<thead>
<tr>
<th>Administrative Dispositions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removed, Terminated or Other</td>
<td>417</td>
</tr>
<tr>
<td>Suspended/Reduction in Grade</td>
<td>129</td>
</tr>
<tr>
<td>Oral or Written Reprimand/Admonishment</td>
<td>150</td>
</tr>
<tr>
<td>Closed – No Action Taken</td>
<td>74</td>
</tr>
<tr>
<td>Clearance Letter Issued</td>
<td>73</td>
</tr>
<tr>
<td>Employee Resigned Prior to Adjudication</td>
<td>126</td>
</tr>
<tr>
<td>Non-Internal Revenue Service Employee Actions 110</td>
<td>589</td>
</tr>
<tr>
<td><strong>Total Administrative Dispositions</strong></td>
<td><strong>1,558</strong></td>
</tr>
</tbody>
</table>

---

105 Criminal referrals include both Federal and State dispositions.

106 Final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.

107 Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon the defendant’s completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.

108 Court dismissed charges.

109 Final administrative dispositions during the reporting period. This data may pertain to investigations referred administratively in prior reporting periods and does not necessarily relate to the investigations closed in the Investigations Opened and Closed table.

110 Administrative actions taken by the IRS against non-IRS employees.
Appendix I  
Statistical Reports - Other  
Audit Reports With Significant Unimplemented Corrective Actions

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

<table>
<thead>
<tr>
<th>Reference Number</th>
<th>IRS Management Challenge Area</th>
<th>Issued</th>
<th>Projected Completion Date</th>
<th>Report Title and Recommendation Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-40-026</td>
<td>Providing Quality Taxpayer Service Operations</td>
<td>February 2005</td>
<td>10/01/11</td>
<td>Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F-1, R-2, P-2. Enhance the IRS’s content management software application to provide the ability to identify specific content accessed or revised by individual users.</td>
</tr>
<tr>
<td>2005-20-024</td>
<td>Security of the IRS</td>
<td>March 2005</td>
<td>10/01/11</td>
<td>The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F-1, R-1, P-1, P-5. Report a disaster recovery program material weakness to the Department of the Treasury as part of the IRS’s Federal Managers Financial Integrity Act of 1982 annual evaluation of controls and include any new or currently underway activities in the corrective action plan.</td>
</tr>
<tr>
<td>2005-10-129</td>
<td>Providing Quality Taxpayer Service Operations</td>
<td>September 2005</td>
<td>01/15/12</td>
<td>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F-1, R-1, P-2. Establish goals and performance measures for the Low Income Taxpayer Clinic program to assist Congress and IRS in evaluating the success of the program.</td>
</tr>
<tr>
<td>2007-10-082</td>
<td>Tax Exempt Organizations</td>
<td>May 2007</td>
<td>06/15/13</td>
<td>Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F-1, R-1, P-1. Develop and implement a long-term strategy to automate the matching of Forms 1023 and 990 information against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations.</td>
</tr>
<tr>
<td>Reference Number</td>
<td>IRS Management Challenge Area</td>
<td>Issued</td>
<td>Projected Completion Date</td>
<td>Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------</td>
<td>--------</td>
<td>--------------------------</td>
<td>------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>2008-40-087</td>
<td>Complexity of the Tax Law</td>
<td>March 2008</td>
<td>12/15/11</td>
<td><strong>Individual Retirement Account Contributions and Distributions Are Not Adequately Monitored to Ensure Tax Compliance</strong>&lt;br&gt;<strong>F-1, R-1, P-1.</strong> Analyze Forms 5498 to identify the causes of the errors and possible corrective actions.</td>
</tr>
<tr>
<td>2008-40-167</td>
<td>Tax Compliance Initiatives</td>
<td>August 2008</td>
<td>12/15/13</td>
<td><strong>The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed</strong>&lt;br&gt;<strong>F-2, R-1, P-1.</strong> Create a single data entry point for processing Withholding Compliance Program cases and, provide lock-in-letter issuance authority to other IRS functions.</td>
</tr>
<tr>
<td>2009-40-024</td>
<td>Erroneous and Improper Payments</td>
<td>December 2008</td>
<td>12/15/11</td>
<td><strong>The Earned Income Program Has Made Advances; However, Alternatives To Traditional Compliance Methods Are Needed to Stop Billions of Dollars in Erroneous Payments</strong>&lt;br&gt;<strong>F-1, R-1, P-1.</strong> Conduct a study to identify alternative processes that will expand the IRS’s ability to effectively and efficiently identify and adjust erroneous Earned Income Tax Credit (EITC) claims for which data show that the taxpayer does not meet the EITC requirements.</td>
</tr>
<tr>
<td>2009-10-107</td>
<td>Improving Performance and Financial Data for Program and Budget Decisions</td>
<td>July 2009</td>
<td>06/15/13</td>
<td><strong>Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases</strong>&lt;br&gt;<strong>F-1, R-2, P-1.</strong> Develop a comprehensive national policy regarding workstation sharing for the flexi-place program and the ratio of flexi-place employees to a shared workstation. &lt;br&gt;<strong>01/15/14</strong>&lt;br&gt;<strong>F-1, R-4, P-1.</strong> Develop procedures requiring that building level projected space needs assessments include consideration of the impact of workstation sharing, and be periodically reconciled in total to agency-wide projected staffing levels.</td>
</tr>
<tr>
<td>2009-40-112</td>
<td>Taxpayer Compliance Initiatives</td>
<td>August 2009</td>
<td>12/15/11</td>
<td><strong>Mortgage Interest Data Could Be Used to Pursue More Nonfilers and Underreporters</strong>&lt;br&gt;<strong>F-1, R-1, P-1.</strong> Explore the feasibility of making greater use of mortgage interest data to pursue additional nonfilers and underreporters for audit.</td>
</tr>
<tr>
<td>2009-10-121</td>
<td>Improving Performance and Financial Data for Program and Budget Decisions</td>
<td>September 2009</td>
<td>11/15/11</td>
<td><strong>The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel</strong>&lt;br&gt;<strong>F-2, R-1, P-1.</strong> Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.</td>
</tr>
<tr>
<td>Reference Number</td>
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<tr>
<td>2009-40-130</td>
<td>Processing Returns and Implementing Tax Law Changes During the Tax Filing Season</td>
<td>September 2009</td>
<td>02/15/14</td>
<td>Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs</td>
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<td>F-1, R-2, P-1. Refocus the Modernized Submission Processing Concept to include implementing a process to convert paper-filed tax returns prepared by individuals using a tax-preparation software package into an electronic format.</td>
</tr>
<tr>
<td>2009-40-138</td>
<td>Taxpayer Protection and Rights</td>
<td>September 2009</td>
<td>01/15/12</td>
<td>Combat Zone Indicators on Taxpayer Accounts Are Frequently Inaccurate</td>
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<td>F-2, R-1, P-1. Improve the process for identifying joint filers serving in the military to properly identify which individual(s) is/are in a combat zone to ensure appropriate enforcement actions are taken.</td>
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<td>F-2, R-2, P-1. Improve the process for ensuring that Combat Zone indicators are reversed when an exit date is received from the Department of Defense (DOD) for those individuals who file a joint tax return but do not maintain the same order of primary and secondary taxpayer.</td>
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<td>F-3, R-1, P-1. Discontinue providing the option to taxpayers of self-identifying by annotating a tax return with “Combat Zone” and continue to provide individuals with the option of self-identifying by telephone or electronically.</td>
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<td>F-3, R-2, P-1. Take action to correct the 339,027 taxpayers with inaccurate Combat Zone indicators what were incorrectly reactivated.</td>
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<td>F-4, R-1, P-1. Develop a process to identify and resolve unpostable records when entry and exit date information provided by the DOD is unable to be posted to an individual’s tax account.</td>
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<td>F-4, R-2, P-1. Take actions to resolve the 458 DOD Combat Zone transactions posted to invalid Social Security Numbers and revise the DOD validation process to ensure accurate posting of entry and exit date information.</td>
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<td>F-5, R-1, P-1. Develop a process to validate Combat Zone service at the time an individual self-identifies.</td>
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<td>F-5, R-2, P-1. Improve the process for individuals who self-identify their Combat Zone service by email with the establishment of a secure fillable form with the required data fields.</td>
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<tr>
<td>2010-40-005</td>
<td>Providing Quality Taxpayer Service</td>
<td>December 2009</td>
<td>08/15/12</td>
<td>Individual Taxpayer Identification Numbers Are Being Issued Without Sufficient Supporting Documentation</td>
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<td>F-3, R-1, P-1. Ensure the data on the Real-Time System are accurate and validate the records that indicate an agent submitted the application to ensure that the Individual Taxpayer Identification Number Program has accurate and reliable data to oversee the Program.</td>
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<td>F-3, R-2, P-1. Develop procedures and internal controls to monitor the Real-Time System to ensure information entered is accurate.</td>
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<tr>
<td>2010-40-017</td>
<td>Erroneous and Improper Payments</td>
<td>January 2010</td>
<td>11/15/11</td>
<td>Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds</td>
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<td>F-1, R-1, P-1. Perform a comprehensive analysis during the 2010 Filing Season to determine the average time to complete one unit of work for each of the transitioned activities.</td>
</tr>
<tr>
<td>2010-30-023</td>
<td>Taxpayer Compliance Initiatives</td>
<td>March 2010</td>
<td>12/15/11</td>
<td>Lien Determinations Were Untimely or Not Made Appropriately For Over $1.4 Billion in Delinquent Taxes</td>
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<td>F-3, R-1, P-1. Consider assessing liens on those modules in the Queue with a balance due between $5,000 and $25,000 that meet the study criteria before shelving.</td>
</tr>
<tr>
<td>2010-30-025</td>
<td>Taxpayer Compliance Initiatives</td>
<td>March 2010</td>
<td>01/15/12 01/15/12 01/15/12 01/15/12</td>
<td>Employment Tax Compliance Could Be Improved With Better Coordination and Information Sharing</td>
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<td>F-1, R-1, P-1. Create an audit code to flag paper returns that have an incomplete Form 8919 attached.</td>
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<td>F-1, R-4, P-1. Ensure that paper and electronically filed returns with Forms 8919 attached are compared to filed Forms SS-8 through a post-filing compliance program. Ensure that paper returns flagged during processing are reviewed and any noncompliance addressed.</td>
</tr>
<tr>
<td>2010-20-027</td>
<td>Taxpayer Protection and Rights</td>
<td>March 2010</td>
<td>09/15/12 09/15/12 09/15/12 09/15/12</td>
<td>Additional Security Is Needed For Access to the Registered User Portal</td>
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<td>F-1, R-1, P-1. Require suitability checks on delegated users who e-file tax returns or access the e-Services incentive products and disable the principal consent feature on e-Services that allows a user to propagate his or her privileges to other users.</td>
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<td>F-1, R-3, P-1. Enhance the e-file application on the Third Party Data Store to post the complete results of the Automated Suitability Analysis Program’s spouse tax compliance check.</td>
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<td>F-1, R-5, P-1. Make passwords more difficult to guess by unauthorized individuals and decrease the use of Social Security Numbers as usernames.</td>
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<td>F-1, R-6, P-1. Implement a control to allow users to answer a series of challenge questions to unlock their accounts.</td>
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<tr>
<td>2010-20-028</td>
<td>Security of the IRS</td>
<td>March 2010</td>
<td>12/01/11</td>
<td>Additional Security Controls Are Needed to Protect the Automated Collection System</td>
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<td>F-1, R-3, P-1. Make the identity access provisioning and management solution a top priority.</td>
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<tr>
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<tr>
<td>2010-30-032</td>
<td>Taxpayer Compliance Initiatives</td>
<td>March 2010</td>
<td>09/15/12</td>
<td><strong>Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement</strong>&lt;br&gt; F-1, R-1, P-1, P-2. Submit a request to revise the computer programming to allow taxpayers only one additional automatic skip per 12-month period and include only individual taxpayers in the processing routine.</td>
</tr>
<tr>
<td>2010-40-043</td>
<td>Taxpayer Compliance Initiatives</td>
<td>March 2010</td>
<td>10/15/12</td>
<td><strong>A Service-wide Strategy Is Needed to Address Growing Noncompliance With Individual Retirement Account Contribution and Distribution Requirements</strong>&lt;br&gt; F-1, R-1, P-1. Ensure a Service-wide strategy is developed to address retirement provision noncompliance.</td>
</tr>
<tr>
<td>2010-40-045</td>
<td>Security of the IRS</td>
<td>March 2010</td>
<td>07/15/14</td>
<td><strong>Telephone Authentication Practices Need Improvement to Better Prevent Unauthorized Disclosures</strong>&lt;br&gt; F-3, R-1, P-1. Incorporate available technology to authenticate callers in the queue as part of the development of the Authentication Retention Project.</td>
</tr>
<tr>
<td>2010-20-044</td>
<td>Modernization of the IRS</td>
<td>May 2010</td>
<td>12/15/11</td>
<td><strong>Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program</strong>&lt;br&gt; F-1, R-1, P-1. Ensure policies and procedures are established to evaluate and determine which best practices to implement to improve data center energy efficiency.&lt;br&gt; F-1, R-2, P-1. Ensure information technology equipment energy use is measured in order to determine the energy efficiency and savings from implementing energy improvements.&lt;br&gt; 03/01/12</td>
</tr>
<tr>
<td>2010-20-056</td>
<td>Modernization of the IRS</td>
<td>June 2010</td>
<td>10/15/11</td>
<td><strong>Additional Efforts Are Needed to Implement the Electronics Stewardship Program and Maximize the Energy Efficiency of Desktop Computer Equipment</strong>&lt;br&gt; F-2, R-1, P-1. Implement an effective process to timely review training records and ensure employees complete required annual training by the June 30 due date.&lt;br&gt; 12/15/11</td>
</tr>
<tr>
<td>Reference Number</td>
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<tr>
<td>2010-30-061</td>
<td>Taxpayer Compliance Initiatives</td>
<td>June 2010</td>
<td>01/15/14</td>
<td><strong>Plans Exist to Engage the Tax Preparer Community in Reducing the Tax Gap; However, Enhancements Are Needed</strong>&lt;br&gt;F-1, R-1, P-1. Update the existing IRS Strategic Plans to ensure all of the information in the plans as required by the Government Performance and Results Act of 1993 and Office of Management and Budget Circular A-11 (Preparation, Submission, and Execution of the Budget).&lt;br&gt;F-2, R-1, P-1. Define and include in the IRS Strategic Plan sufficient measures that will provide data that can be used to monitor the IRS’s efforts to achieve objectives aimed at strengthening partnerships with tax practitioners and paid preparers to ensure effective tax administration.</td>
</tr>
<tr>
<td>2010-41-069</td>
<td>Implementing Health Care and Other Tax Law Changes</td>
<td>June 2010</td>
<td>12/15/11</td>
<td><strong>Additional Steps Are Needed to Prevent and Recover Erroneous Claims for the First-Time Homebuyer Credit</strong>&lt;br&gt;F-1, R-1, P-1. Ensure that steps are taken to reconcile prisoner files from year to year to account for individuals known to be incarcerated in a given year but not included on the current year’s prisoner file.</td>
</tr>
<tr>
<td>2010-40-062</td>
<td>Erroneous and Improper Payments</td>
<td>July 2010</td>
<td>01/15/12</td>
<td><strong>Better Use of Available Third-Party Data Could Identify and Prevent More Than One Billion Dollars in Potentially Erroneous Refunds</strong>&lt;br&gt;F-1, R-3, P-1. Work with the Department of the Treasury, Office of Tax Policy, to obtain limited math error authority so that the IRS can freeze refunds while contacting taxpayers with a questionable age for certain filing statuses, taxpayers shown as deceased based on Social Security Administration information, and taxpayers with questionable EITC claims based on age difference.</td>
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</table>
| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary  
(*F* = Finding Number (No.), *R* = Recommendation No.,  
*P* = Plan No.) |
|------------------|-------------------------------|--------|--------------------------|---------------------------------------------------------------------------------------------------------------|
| 2010-20-084      | Security of the IRS           | August 2010 | 03/01/12 | **More Actions Are Needed to Correct the Security Roles and Responsibilities Portion of the Computer Security Material Weakness**  
F-1, R-1, P-1. Update the Internal Revenue Manual (IRM) to include all information technology security roles in existence at the IRS and the related responsibilities for each of these roles; establish recurring processes and communications to ensure security roles and responsibilities in the IRM are periodically reviewed and updated and alignment between the IRM and the training curriculum is maintained; and establish a process to periodically collect, update, and review security role-related procedures and guidelines to ensure day-to-day procedures align with current IRS policy.  
02/01/12 | F-2, R-1, P-1. Develop an effective and repeatable method to identify all IRS and contract employees performing in established information technology security roles; include all IRS and contract employees performing in information technology security roles in the population for potential selection in the compliance assessments; and develop adequate procedures to validate compliance with current security role-related responsibilities through compliance assessments that incorporate supporting evidence of proper execution of assigned responsibilities.  
09/30/12 | F-3, R-1, P-1. Ensure adequate and accurate metrics are established that assess progress and can be analyzed to develop actions to further improve implementation of security roles and responsibilities policy. |
| 2010-40-091      | Globalization                 | August 2010 | 01/15/12 | **Improvements Are Needed to Reduce Erroneous Foreign Earned Income Exclusion Claims**  
F-1, R-4, P-1. Include programming to forward tax returns to the Error Resolution System for correction if the individual incorrectly computes the foreign earned income. |
| 2010-30-095      | Taxpayer Compliance Initiatives | August 2010 | 10/15/11 | **The Collection Field Function Did Not Take All Appropriate Collection Actions Prior to Closing In-Business Taxpayer Accounts as Currently Not Collectible**  
F-1, R-1, P-2. Ensure training is provided with additional emphasis on the importance of securing, verifying, and analyzing financial information.  
02/15/12 | F-1, R-2, P-1. Ensure the Integrated Collection System and IRM are updated to include verification of income and expense requirements. |
| 2010-30-104      | Taxpayer Compliance Initiatives | September 2010 | 06/15/13 | **Currency Report Data Can Be a Good Source for Audit Leads**  
F-1, R-1, P-1. Explore the feasibility of making greater use of Currency Transaction Reports to pursue additional nonfilers and underreporters for audit. |
<table>
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<tr>
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<tr>
<td>2010-40-108</td>
<td>Providing Quality Taxpayer Service</td>
<td>September 2010</td>
<td>01/15/13</td>
<td>Toll-Free Telephone Access Exceeded Expectations, But Access for Hearing- and Speech-Impaired Taxpayers Could Be Improved</td>
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<td>01/15/12</td>
<td>F-1, R-1, P-1. Revise the various taxpayer instructions, including notices, for calling the IRS to clearly explain that the Tele-Typewriter/Telecommunications Device (TTY/TDD) number is for hearing- and speech-impaired individuals.</td>
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<td>01/15/12</td>
<td>F-1, R-2, P-1. Revise the various taxpayer publications and IRS pages to include the Federal Relay Service website and toll-free telephone number as a means to communicate with the IRS.</td>
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<td>01/15/12</td>
<td>F-1, R-3, P-1. Determine whether it would be more efficient to move the Atlanta, Georgia, workstation to Dallas, Texas, or Indianapolis, Indiana, where the majority of the TTY/TDD calls are received and have the two sites serve as each other’s backup.</td>
</tr>
<tr>
<td>2010-40-121</td>
<td>Taxpayer Compliance Initiatives</td>
<td>September 2010</td>
<td>12/15/11</td>
<td>Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States</td>
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<td>10/1/11</td>
<td>F-1, R-3, P-1. Determine whether it would be feasible to require payers issuing multiple Forms 1042-S to issue a single summary Form 1042-S at the end of the calendar year to simplify reporting for the United States business and third-party payer and decrease taxpayer burden.</td>
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<td>10/1/11</td>
<td>F-2, R-1, P-1. Use the Foreign Country Codes on Form 1040NR to ensure that the correct tax rate has been applied.</td>
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<td>01/15/12</td>
<td>F-3, R-2, P-1. Clarify instructions on what constitutes United States source income in United States Tax Guide for Aliens (Publication 519) and Withholding of Tax on Nonresident Aliens and Foreign Entities (Publication 515) in regard to income from multi-level marketing companies.</td>
</tr>
<tr>
<td>2010-40-127</td>
<td>Taxpayer Compliance Initiatives</td>
<td>September 2010</td>
<td>06/15/12</td>
<td>It Will Take Years to Implement the Return Preparer Program and to Realize Its Impact</td>
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<td>04/15/13</td>
<td>F-1, R-1, P-1. Provide sufficient resources to verify professional credentials for all attorneys and Certified Public Accountants applying for a Preparer Tax Identification Number (PTIN).</td>
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<td>09/15/12</td>
<td>F-1, R-2, P-1, P-2. Establish controls to ensure PTIN applicants with domestic addresses are United States citizens or legal aliens, and the Social Security Number of the PTIN applicant is not the Social Security Number of a deceased person.</td>
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<td>09/15/12</td>
<td>F-1, R-3, P-1. Complete the study comparing the four preparer programs to gain an understanding of the basis for the requirements and if they should apply to each program, to ensure consistencies in the requirements and suitability testing among the program, and to identify any overlaps, including user fees, among the programs.</td>
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<tr>
<td>2011-30-005</td>
<td>Taxpayer Compliance Initiatives</td>
<td>December 2010</td>
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<td>Actions Are Needed in the Identification, Selection, and Examination of Individual Tax Returns With Rental Real Estate Activity</td>
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<td>07/15/13</td>
<td>F-1, R-1, P-1. Conduct an analysis to determine the population of tax returns with rental real estate activity that meets the criteria of the Compliance Initiative Program.</td>
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<td>02/15/12</td>
<td>F-2, R-1, P-1. Revise the instructions for Form 8582 to require all taxpayers with prior year unallowed Passive Activity Losses to submit the form with their tax returns.</td>
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<td>02/15/12</td>
<td>F-2, R-2, P-1. Ensure the information taxpayers provide to report the net amount of income earned or losses incurred from being a real estate professional is transcribed.</td>
</tr>
<tr>
<td>2011-40-009</td>
<td>Erroneous and Improper Payments</td>
<td>December 2010</td>
<td></td>
<td>Significant Problems Still Exist With Internal Revenue Service Efforts to Identify Prisoner Tax Refund Fraud</td>
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<td>12/15/11</td>
<td>F-2, R-3, P-1. Revise prisoner filters to verify the validity of wages and withholding associated with prisoners incarcerated for a year who filed tax returns claiming a refund.</td>
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<td>01/15/12</td>
<td>F-3, R-1, P-1. Develop a process to assess the reliability (accuracy and completeness) of data received from Federal and State Prisons.</td>
</tr>
<tr>
<td>2011-41-011</td>
<td>Recovery Act</td>
<td>January 2011</td>
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<td>Recovery Act: Individuals Received Millions of Dollars in Erroneous Plug-In Electric and Alternative Motor Vehicle Credits</td>
</tr>
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<td>01/15/12</td>
<td>F-1, R-2, P-1. Initiate actions to recover the $4.5 million in Plug-in Electric and Alternative Motor Vehicle Credits claimed by the 2,710 individuals TIGTA identified as having erroneously claimed these credits.</td>
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<td>01/15/12</td>
<td>F-1, F-3, P-1. Initiate actions to recover the more than $1.4 million in Plug-in Electric and Alternative Motor Vehicle Credits claimed by 589 individuals that TIGTA identified as having erroneously claimed credits for vehicles with nonqualifying in-service dates.</td>
</tr>
<tr>
<td></td>
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<td>01/15/12</td>
<td>F-1, F-4, P-2. Develop a process to ensure individuals are not erroneously claiming vehicles with nonqualifying makes and models.</td>
</tr>
<tr>
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<td>01/15/12</td>
<td>F-1, R-5, P-1. Initiate actions to recover the $27.1 million in Plug-in Electric and Alternative Motor Vehicle Credits claimed by 9,621 individuals TIGTA identified as having erroneously claimed credit for vehicles with a nonqualifying make and model.</td>
</tr>
<tr>
<td></td>
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<td>01/15/12</td>
<td>F-2, R-2, P-1. Initiate actions to recover the $779,000 in Plug-in Electric and Alternative Motor Vehicle Credits claimed by 129 individuals TIGTA identified as having erroneously claimed multiple credits for the same vehicle.</td>
</tr>
<tr>
<td></td>
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<td>01/15/12</td>
<td>F-2, R-3, P-1. Develop processes to ensure prisoners do not receive erroneous Plug-in Electric and Alternative Motor Vehicle Credits.</td>
</tr>
<tr>
<td>Reference Number</td>
<td>IRS Management Challenge Area</td>
<td>Issued</td>
<td>Projected Completion Date</td>
<td>Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)</td>
</tr>
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</tr>
<tr>
<td>2011-40-014</td>
<td>Taxpayer Protection and Rights</td>
<td>January 2011</td>
<td>01/15/13</td>
<td>The Income Verification Express Services Program Needs Improvements to Better Protect Tax Return Information</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>09/15/12</td>
<td>F-1, R-1, P-1. Develop and enforce minimum requirements for the Income Verification Express Services (IVES) Program that would help ensure participants are suitable to have a working relationship with the IRS and receive taxpayer information from the IVES Program.</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>01/15/12</td>
<td>F-1, R-3, P-1. Within one year of revising Form 13803, contact and obtain a completed Form 13803 from all current IVES Program participants.</td>
</tr>
<tr>
<td>2011-20-012</td>
<td>Security of the IRS</td>
<td>February 2011</td>
<td>07/01/12</td>
<td>Additional Security Is Needed for the Taxpayer Secure Email Program</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>F-1, R-1, P-1. Continue the acquisition of a data leakage prevention system to ensure full deployment by April 2012.</td>
</tr>
<tr>
<td>2011-40-022</td>
<td>Providing Quality Taxpayer Service</td>
<td>February 2011</td>
<td>12/15/11</td>
<td>The Taxpayer Assistance Centers Are Not Located to Effectively Serve the Maximum Number of Taxpayers</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>F-1, R-2, P-1. Identify opportunities to better align the Taxpayer Assistance Centers with taxpayer needs and complete the evaluative process in the Geographic Footprint Initiative, including a cost-benefit analysis, return-on-investment, taxpayer impact, stakeholder input, and communication plan.</td>
</tr>
<tr>
<td>2011-40-023</td>
<td>Erroneous and Improper Payments</td>
<td>February 2011</td>
<td>09/15/13</td>
<td>Reduction Targets and Strategies Have Not Been Established to Prevent the Issuance of Billions of Dollars in Improper Earned Income Tax Credit Payments Each Year</td>
</tr>
<tr>
<td></td>
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<td>09/15/13</td>
<td>F-1, R-1, P-1. Establish quantifiable reduction targets and strategies to meet those targets.</td>
</tr>
<tr>
<td></td>
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<td>F-2, R-1, P-1. Use the National Research Program sample to estimate instances where the IRS incorrectly pays less in EITC than the taxpayer claims (underpayments).</td>
</tr>
<tr>
<td>Reference Number</td>
<td>IRS Management Challenge Area</td>
<td>Issued</td>
<td>Projected Completion Date</td>
<td>Report Title and Recommendation Summary <em>(F = Finding Number (No.), R = Recommendation No., P = Plan No.)</em></td>
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<tr>
<td>2011-30-020</td>
<td>Taxpayer Protection and Rights</td>
<td>March 2011</td>
<td>06/15/12 01/15/13 09/15/12</td>
<td><strong>Taxpayer Payments Were Improperly Transferred to the Excess Collection File</strong>&lt;br&gt;06/15/12 F-1, R-2, P-1. Request revisions to Form 8758 to include a dedicated line for managerial approval (signature) and date for all transfers of $100,000 or more.&lt;br&gt;01/15/13 F-2, R-1, P-1. Request programming changes to systemically issue Letter 2765C when taxpayers submit payments after the Assessment Statute Expiration Date in advance of an examination adjustment or with an amended return.&lt;br&gt;09/15/12 F-2, R-2, P-1. Request revisions to Letter 2765C to clarify how to file a claim for refund and include Form 843 when Letter 2765C is sent to the taxpayers.</td>
</tr>
<tr>
<td>2011-40-031</td>
<td>Security of the IRS</td>
<td>March 2011</td>
<td>02/15/12 02/15/12 02/15/12 02/15/12</td>
<td><strong>System Validations Are Insufficient to Prevent the Unauthorized Use of Electronic Filing</strong>&lt;br&gt;02/15/12 F-1, R-1, P-1. Periodically match Social Security Administration records.&lt;br&gt;02/15/12 F-1, R-3, P-1. Ensure calls to the E-Help Desk that are closed with the &quot;Compromised EFIN&quot; Solution are referred by the IRS for further analysis and/or investigation.&lt;br&gt;02/15/12 F-1, R-6, P-1. Implement a process to ensure Transmitters are following IRS e-file guidelines and regulations.</td>
</tr>
<tr>
<td>2011-41-035</td>
<td>Recovery Act</td>
<td>March 2011</td>
<td>04/15/12 04/15/12 04/15/12 04/15/12</td>
<td><strong>Administration of the First-Time Homebuyer Credit Indicates a Need for Improved Controls Over Refundable Credits</strong>&lt;br&gt;04/15/12 F-2, R-1, P-1. Develop a method similar to that used by TIGTA to identify improper claims for purchases from related persons and conduct examinations as appropriate to ensure the Credits are recovered.&lt;br&gt;04/15/12 F-3, R-1, P-1. Perform a review of the claims with invalid addresses that TIGTA identified and correspond with taxpayers in order to validate the home purchases.&lt;br&gt;04/15/12 F-4, R-1, P-1. Modify the programming for the filter to identify taxpayers who did not purchase a home so that it identifies all claims meeting the specified criteria.&lt;br&gt;04/15/12 F-5, R-1, P-1. Identify those claims for which valid acquisition dates were not supplied and initiate post-refund examinations (including the use of soft notices) to ensure refunds for the invalid claims are recovered.</td>
</tr>
</tbody>
</table>
Other Statistical Reports

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

<table>
<thead>
<tr>
<th>Issue</th>
<th>Result for TIGTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Information</td>
<td>As of September 30, 2011, there were no instances where information or assistance requested by the Office of Audit was unreasonably refused.</td>
</tr>
<tr>
<td>Disputed Audit Recommendations</td>
<td>As of September 30, 2011, there were no instances where significant recommendations were disputed.</td>
</tr>
<tr>
<td>Revised Management Decisions</td>
<td>As of September 30, 2011, no significant management decisions were revised.</td>
</tr>
<tr>
<td>Audit Reports Issued in the Prior Reporting Period With No Management Response</td>
<td>As of September 30, 2011, there were no prior reports where management’s response was not received.</td>
</tr>
<tr>
<td>Review of Legislation and Regulations</td>
<td>TIGTA’s Office of Chief Counsel reviewed 387 proposed regulations and legislative requests during this reporting period.</td>
</tr>
</tbody>
</table>

TIGTA’s Office of Chief Counsel reviewed 387 proposed regulations and legislative requests during this reporting period.
## Appendix II
### Audit Products
#### April 1, 2011 - September 30, 2011

<table>
<thead>
<tr>
<th>Reference Number</th>
<th>Report Title</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>April 2011</strong></td>
<td></td>
</tr>
<tr>
<td>2011-41-037</td>
<td>Millions of Dollars in Questionable Qualified Motor Vehicle Deductions Are Being Allowed</td>
</tr>
<tr>
<td>2011-41-038</td>
<td>Processes Were Not Established to Verify Eligibility for Residential Energy Credits (Revenue Protection: $397,158)</td>
</tr>
<tr>
<td>2011-40-043</td>
<td>The Interactive Tax Law Assistant Helps Assistors Provide Accurate Answers to Taxpayer Inquiries</td>
</tr>
<tr>
<td>2011-10-045</td>
<td>Collection Employees Adhered to Fair Tax Collection Practices During Fiscal Year 2010</td>
</tr>
<tr>
<td>2011-30-040</td>
<td>Fiscal Year 2011 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 38 taxpayers impacted)</td>
</tr>
<tr>
<td><strong>May 2011</strong></td>
<td></td>
</tr>
<tr>
<td>2011-20-044</td>
<td>Security Over Databases Could Be Enhanced to Ensure Taxpayer Data Are Protected (Inefficient Use of Resources: $1,113,850)</td>
</tr>
<tr>
<td>2011-10-047</td>
<td>Employees Are Provided Sufficient Information on Their Tax Responsibilities, but Additional Actions Are Needed to Detect All Noncompliant Employees (Reliability of Information: 133 instances of IRS employee noncompliance not identified by the Employee Tax Compliance Program)</td>
</tr>
<tr>
<td>2011-30-039</td>
<td>Challenges Remain to Balance Revenue Officer Staffing With Attrition and Workload Demands</td>
</tr>
<tr>
<td>2011-30-049</td>
<td>Fiscal Year 2011 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers’ Property</td>
</tr>
<tr>
<td>2011-10-050</td>
<td>The Employee Plans Function Has Improved the Process for Selecting Retirement Plans for Examination</td>
</tr>
<tr>
<td>2011-30-051</td>
<td>Challenges Remain When Processing Undeliverable Mail and Preventing Violations of Taxpayers’ Rights During the Lien Due Process</td>
</tr>
<tr>
<td>2011-20-046</td>
<td>Access Controls for the Automated Insolvency System Need Improvement</td>
</tr>
<tr>
<td>2011-10-034</td>
<td>Limitations in the Sample Size for the Internal Revenue Service’s Employment Tax Study May Impact the Ability to Determine Compliance Levels</td>
</tr>
<tr>
<td>2011-30-048</td>
<td>Successfully Processing Large Corporate Tax Returns Electronically Was a Major Accomplishment, but Eliminating More Compliant Returns From the Audit Stream Is a Work in Progress</td>
</tr>
<tr>
<td>2011-40-054</td>
<td>Some Taxpayers Were Not Appropriately Notified When Their Personally Identifiable Information Was Inadvertently披露 (Taxpayer Privacy and Security: 653 taxpayers impacted and 815 disclosure records not controlled in IRS tracking systems)</td>
</tr>
<tr>
<td>TIGTA Semiannual Report to Congress</td>
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</tbody>
</table>

| 2011-10-042 | Improvements Are Needed in the Voluntary Closing Agreement Process for Public Employers |
| 2011-10-041 | Challenges Continue With Reporting Complete and Accurate Information in the Federal Financial Management Improvement Act Remediation Plan (Reliability of Information: Reported and actual resource estimate difference of $697,894,000) |

**June 2011**

| 2011-11-053 | The Direct Pay Build America Bond Compliance Check Program Has Yet to Result in Wide-Scale Examinations |
| 2011-30-055 | Fiscal Year 2011 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 272 taxpayers impacted) |
| 2011-1C-033 | Facilities Utilization of Professional Office Space |
| 2011-1C-056 | Incurred Cost Audit for Fiscal Year Ended September 29, 2006 |
| 2011-1C-064 | Post-Award Accounting System |
| 2011-41-057 | Control Weaknesses Over Amended Returns Allowed Some Inappropriate Claims for the First-Time Homebuyer Credit to Be Allowed (Funds Put to Better Use: $9,246,464) |
| 2011-10-052 | The Identification and Evaluation of Systemic Advocacy Projects Designed to Resolve Broad-Based Taxpayer Problems Can Be Improved |
| 2011-20-060 | Corrective Actions to Address the Disaster Recovery Material Weakness Are Being Completed |

**July 2011**

<p>| 2011-40-058 | Taxpayers Do Not Always Receive Quality Responses When Corresponding About Tax Issues (Funds Put to Better Use: $2,121,590; Taxpayer Burden: 5,505,260 taxpayers impacted; Reliability of Information: 1,562,475 taxpayer correspondence cases with incorrect category codes) |
| 2011-40-059 | Some Taxpayer Responses to Math Error Adjustments Were Not Worked Timely and Accurately (Revenue Protection: $39,521,235 and 34,635 taxpayers impacted; Taxpayer Burden: 16,006 taxpayers impacted; Taxpayer Rights and Entitlements: $29,161,010 and 39,580 taxpayers impacted) |
| 2011-41-061 | Individuals Who Are Not Authorized to Work in the United States Were Paid $4.2 Billion in Refundable Credits |
| 2011-30-063 | Procedures Allowed Inconsistent Processing of Streamlined Installment Agreements (Taxpayer Rights and Entitlements: $1,056,399 and 15,037 taxpayers impacted) |
| 2011-30-071 | Trends in Compliance Activities Through Fiscal Year 2010 |
| 2011-10-067 | The Taxpayer Advocate Service Can More Effectively Ensure Low Income Taxpayer Clinics Are Appropriately Using Grant Funds (Reliability of Information: $33,800,000 in grant funds awarded without assurance the funds are serving the population intended by Congress) |
| 2011-40-070 | The Internal Revenue Service Provides Helpful and Accurate Tax Law Assistance, but Taxpayers Experience Lengthy Wait Times to Speak With Assistors |
| 2011-30-068 | Trends in Criminal Investigation’s Enforcement Activities Showed Improvements for Fiscal Year 2010, With Gains in Most Performance Indicators |
| 2011-10-072 | Additional Actions and Data Are Needed to Further Analyze the Size and Skills of the Acquisition Workforce |
| 2011-30-077 | Fiscal Year 2011 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns |
| 2011-30-069 | Fiscal Year 2011 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results |</p>
<table>
<thead>
<tr>
<th>Report Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-40-073</td>
<td>Progress Has Been Made, but Additional Improvements to the E-Help Desk Are Needed to Support Expanding Electronic Products and Services (Taxpayer Privacy and Security: 411,175 taxpayers impacted; Inefficient Use of Resources: $8,098,185; Taxpayer Burden: 14,030 international callers who lacked a toll-free option for calling the e-help Desk)</td>
</tr>
<tr>
<td>2011-10-062</td>
<td>Additional Improvements Are Needed in the Office of Appeals Collection Due Process Program to Ensure Statutory Requirements Are Met (Increased Revenue: 3,196 taxpayer accounts; Taxpayer Rights and Entitlements: 16,213 taxpayer accounts)</td>
</tr>
<tr>
<td>2011-20-078</td>
<td>Service Operations Command Center Management Can Do More to Benefit From Implementing the Information Technology Infrastructure Library</td>
</tr>
<tr>
<td>2011-10-085</td>
<td>Affordable Care Act: The Tax Exempt and Government Entities Division’s Planning Efforts for the Health Care Reform Legislation</td>
</tr>
<tr>
<td>2011-10-086</td>
<td>Controls Over Costs and Building Security Related to Outsourced Office Support Services Need to Be Improved (Inefficient Use of Resources: $861,689; Protection of Resources: 39,659 IRS employees and 14 IRS facilities; Reliability of Information: 97 inventory items not re-inventoried after relocation)</td>
</tr>
<tr>
<td>2011-40-087</td>
<td>Increased Call Demand and Limited Resources Continue to Adversely Affect the Toll-Free Telephone Level of Service</td>
</tr>
<tr>
<td>2011-1C-027</td>
<td>Fiscal Year Ending March 31, 2007, Incurred Cost Audit</td>
</tr>
<tr>
<td>2011-1C-066</td>
<td>Post-Award Accounting System</td>
</tr>
<tr>
<td>2011-1C-079</td>
<td>Billing System Controls</td>
</tr>
<tr>
<td>2011-1C-080</td>
<td>Fiscal Year 2010 Compliance With Requirements Applicable to the Contractor’s Research and Development Program (Questioned Costs: $87,320)</td>
</tr>
<tr>
<td>2011-1C-081</td>
<td>Indirect and Other Direct Cost System</td>
</tr>
<tr>
<td>2011-1C-082</td>
<td>Fiscal Year 2011 Through Fiscal Year 2014 Civil Group Forward Pricing Rates</td>
</tr>
<tr>
<td>2011-1C-092</td>
<td>Post-Award Accounting System Survey</td>
</tr>
<tr>
<td>2011-10-089</td>
<td>The Human Capital Office Improved the Hiring Process, but Additional Actions Can Be Taken to Better Monitor Hiring Timelines</td>
</tr>
<tr>
<td>2011-40-094</td>
<td>Accuracy of Tax Returns, the Quality Assurance Processes, and Security of Taxpayer Information Remain Problems for the Volunteer Program</td>
</tr>
<tr>
<td>2011-20-076</td>
<td>The IRS2GO Smartphone Application Is Secure, but Development Process Improvements Are Needed</td>
</tr>
<tr>
<td>2011-10-075</td>
<td>Controls Over the Purchase Card Program Were Not Effective in Ensuring Appropriate Use (Protection of Resources: $48,390)</td>
</tr>
<tr>
<td>2011-10-096</td>
<td>Risk Management Efforts Could Be Improved With Clearly Defined Procedures and Expanded Information Sharing</td>
</tr>
<tr>
<td>2011-30-093</td>
<td>The Office of Disclosure Continues to Improve Compliance With the Freedom of Information Act Requirements (Taxpayer Rights and Entitlements: 45 responses to Freedom of Information Act and Privacy Act requests not processed within statutory timeframes)</td>
</tr>
<tr>
<td>2011-30-084</td>
<td>Additional Steps Are Needed to Better Ensure Audits Are Expanded to Prior and/or Subsequent Year Returns When Substantial Taxes May Be Owed (Increased Revenue: $67,600,000 and 1,407 taxpayers impacted)</td>
</tr>
<tr>
<td>Report Number</td>
<td>Title</td>
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</tr>
<tr>
<td>2011-30-091</td>
<td>Using Soft Notices to Address Reporting Discrepancies Has Merit, but Cost and Benefit Questions Remain</td>
</tr>
<tr>
<td>2011-40-100</td>
<td>Legislative Requirements Were Met When Awarding Credits and Grants for the Qualifying Therapeutic Discovery Project Program</td>
</tr>
<tr>
<td>2011-41-097</td>
<td>First-Time Homebuyer Credit Repayment Notices Were Incorrect, and the Method Used to Identify Dispositions Is unreliable (Taxpayer Burden: 31,453 taxpayers impacted; Inefficient Use of Resources: $135,333)</td>
</tr>
<tr>
<td>2011-30-102</td>
<td>National Research Program Audits of Individuals Are Closely Monitored, but the Quality of Tests for Unreported Income Is a Concern</td>
</tr>
<tr>
<td>2011-41-083</td>
<td>Billions of Dollars in Education Credits Appear to Be Erroneous (Funds Put to Better Use: $6,829,500,000; Revenue Protection: $6,437,600,000 and 2,204,321 taxpayers impacted)</td>
</tr>
<tr>
<td>2011-30-090</td>
<td>Fiscal Year 2011 Statutory Review of Restrictions on Directly Contacting Taxpayers</td>
</tr>
<tr>
<td>2011-40-103</td>
<td>Affordable Care Act: Efforts to Implement the Small Business Health Care Tax Credit Were Mostly Successful, but Some Improvements Are Needed</td>
</tr>
<tr>
<td>2011-20-105</td>
<td>The Modernization and Information Technology Services Organization Is Effectively Planning for the Implementation of the Affordable Care Act</td>
</tr>
<tr>
<td>2011-10-107</td>
<td>The Administration of Recruitment and Retention Incentives Has Improved, but Additional Actions Should Be Taken</td>
</tr>
<tr>
<td>2011-10-108</td>
<td>The Employee Plans Function Should Continue Its Efforts to Obtain Needed Retirement Plan Information</td>
</tr>
<tr>
<td>2011-20-110</td>
<td>The Customer Account Data Engine 2 Database Implementation Project Made Progress in Design Activities, but Improvements Are Needed</td>
</tr>
<tr>
<td>2011-10-098</td>
<td>The Internal Revenue Service Adequately Prepared for and Responded to the Austin Incident</td>
</tr>
<tr>
<td>2011-30-118</td>
<td>The 2009 Offshore Voluntary Disclosure Initiative Increased Taxpayer Compliance, but Some Improvements Are Needed</td>
</tr>
<tr>
<td>2011-40-115</td>
<td>Affordable Care Act: The Number of Taxpayers Filing Tanning Excise Tax Returns Is Lower Than Expected</td>
</tr>
<tr>
<td>2011-20-074</td>
<td>Mainframe Computer Performance Is Being Actively Monitored, but Defined-Service Agreements and Software Licensing Can Be Improved (Inefficient Use of Resources: $580,358)</td>
</tr>
<tr>
<td>2011-20-111</td>
<td>Continued Centralization of the Windows Environment Would Improve Administration and Security Efficiencies (Inefficient Use of Resources: $1,200,000)</td>
</tr>
<tr>
<td>2011-20-101</td>
<td>Security Controls Over Wireless Technology Were Generally in Place; However, Further Actions Can Improve Security</td>
</tr>
<tr>
<td>2011-30-112</td>
<td>Reducing the Processing Time Between Balance Due Notices Could Increase Collections (Increased Revenue: $1,817,174,265; Taxpayer Burden: $9,053,150 and 466,544 taxpayers impacted)</td>
</tr>
<tr>
<td>2011-40-124</td>
<td>Many Investment Theft Loss Deductions Appear to Be Erroneous</td>
</tr>
<tr>
<td>2011-30-114</td>
<td>Collection Actions Were Not Always Pursued on Cases Returned From the Private Debt Collection Program (Increased Revenue: $546,758,000)</td>
</tr>
</tbody>
</table>

April 1, 2011 – September 30, 2011
<table>
<thead>
<tr>
<th>Date</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-10-125</td>
<td>Management Oversight of the Small Business/Self-Employed Division’s Fuel Compliance Fleet Card Program Should Be Strengthened (Reliability of Information: $2,799,237 in fleet credit card transactions without adequate records to quantify inappropriate charges and 10 fleet vehicles missing from the IRS’s asset inventory system)</td>
</tr>
<tr>
<td>2011-1C-104</td>
<td>Post-Award Accounting System</td>
</tr>
<tr>
<td>2011-20-109</td>
<td>The Customer Account Data Engine 2 Is Making Progress Toward Achieving Daily Processing, but Improvements Are Warranted to Ensure Full Functionality</td>
</tr>
<tr>
<td>2011-1C-119</td>
<td>Post-Award Accounting System</td>
</tr>
<tr>
<td>2011-1C-120</td>
<td>Post-Award Accounting System</td>
</tr>
<tr>
<td>2011-1C-121</td>
<td>Pre-Award Survey of a Prospective Contractor’s Accounting System</td>
</tr>
<tr>
<td>2011-1C-122</td>
<td>Final Incurred Cost Proposal for Fiscal Year Ending April 2, 2004 (Questioned Costs: $28,568,742)</td>
</tr>
<tr>
<td>2011-1C-123</td>
<td>Noncompliance With Cost Accounting Standard 405, Accounting for Unallowable Costs</td>
</tr>
<tr>
<td>2011-40-128</td>
<td>The Passage of Late Legislation and Incorrect Computer Programming Delayed Refunds for Some Taxpayers During the 2011 Filing Season (Funds Put to Better Use: $32,639,130; Increased Revenue: $3,600,000 and 15,956 taxpayers impacted; Revenue Protection: $112,800,000 and 143,504 taxpayers impacted; Taxpayer Rights and Entitlements: $675,063 and 2,765 taxpayers impacted; Taxpayer Burden: 41,591 taxpayers impacted)</td>
</tr>
<tr>
<td>2011-1C-129</td>
<td>Pre-Award Accounting System Audit</td>
</tr>
<tr>
<td>2011-1C-130</td>
<td>Pre-Award Accounting System Audit</td>
</tr>
<tr>
<td>2011-20-106</td>
<td>Annual Assessment of the Internal Revenue Service Information Technology Program</td>
</tr>
<tr>
<td>2011-30-113</td>
<td>Steps Can Be Taken to Enhance the Quality of Audits Involving Small Corporate Returns</td>
</tr>
<tr>
<td>2011-40-126</td>
<td>Controls Over Refunds to Certain Taxpayers Could Be Improved</td>
</tr>
<tr>
<td>2011-40-131</td>
<td>Low Participation and Tax Return Volumes Continue to Hinder the Transition of Individual Income Tax Returns to the Modernized e-File System</td>
</tr>
<tr>
<td>2011-10-095</td>
<td>Contract Files Lacked Sufficient Information to Support Determinations of Present Responsibility</td>
</tr>
<tr>
<td>2011-20-099</td>
<td>The Mainframe Databases Reviewed Met Security Requirements; However, Automated Security Scans Were Not Performed (Inefficient Use of Resources: $702,560)</td>
</tr>
<tr>
<td>2011-30-117</td>
<td>Improvements Are Needed to Ensure the Central Withholding Agreement Program Fosters Nonresident Alien Withholding Compliance</td>
</tr>
<tr>
<td>2011-20-127</td>
<td>The Customer Account Data Engine 2 Program Management Office Implemented Systems Development Guidelines; However, Process Improvements Are Needed to Address Inconsistencies (Funds Put to Better Use: $ 11,537,356)</td>
</tr>
<tr>
<td>2011-11-132</td>
<td>Procurements Were Not Processed in Compliance With the American Recovery and Reinvestment Act of 2009 (Reliability of Information: $58,000 of Recovery Act procurement actions not reported timely to the Department of the Treasury or the Office of Management and Budget)</td>
</tr>
</tbody>
</table>
### Appendix III

**TIGTA’s Statutory Reporting Requirements**

TIGTA issued 21 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2011, TIGTA completed its 13th round of statutory reviews that are required annually by the IRS Restructuring and Reform Act of 1998 (RRA 98). It also completed its annual review of the Federal Financial Management Improvement Act of 1996 (FFMIA), and its annual review of the IRS’s Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions. The following table reflects the FY 2011 statutory reviews.

<table>
<thead>
<tr>
<th>Reference to Statutory Coverage</th>
<th>Explanation of the Provision</th>
<th>Comments/TIGTA Audit Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enforcement Statistics</td>
<td>Requires TIGTA to evaluate the IRS’s compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.</td>
<td><strong>Ref. No:</strong> 2011-30-069, July 2011&lt;br&gt;The IRS achieved full compliance with Section 1204(a) requirements. TIGTA identified no violations of RRA 98 Section 1204(a) in performance evaluation documents for the 145 employees reviewed. TIGTA’s review found that managers had not included record of tax enforcement results (ROTERs) in employees’ performance evaluation documents.&lt;br&gt;&lt;br&gt;Also, the IRS achieved full compliance with Section 1204(b) and (c) requirements. The IRS evaluated all employees on the fair and equitable treatment of taxpayers and prepared quarterly self-certifications showing whether or not ROTERs were used to evaluate employees.&lt;br&gt;&lt;br&gt;In a judgmental sample of 32 employees, nine (28 percent) did not understand the term “retention standard,” and 13 (41 percent) were not sure they had received training on the retention standard.&lt;br&gt;&lt;br&gt;For FY 2011, the IRS’s mandatory RRA 98 Section 1204 training for managers and employees was launched through the Enterprise Learning Management System. Training delivery was staggered from March 1, 2011 to September 30, 2011, to accommodate the operating and functional divisions’ workload.</td>
</tr>
<tr>
<td>Reference to Statutory Coverage</td>
<td>Explanation of the Provision</td>
<td>Comments/TIGTA Audit Status</td>
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<tr>
<td>Restrictions on Directly Contacting Taxpayers</td>
<td>Requires TIGTA to evaluate the IRS’s compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</td>
<td>Ref. No: 2011-30-090, September 2011 TIGTA varied the scope of its review this year to include discussions with, and analysis of, information received from tax representatives and personnel from the IRS’s Large Business and International (LB&amp;I) Division who reached out to TIGTA about concerns they had over potential unreported direct contact violations. TIGTA also evaluated a judgmental sample of 2,168 large corporate audits that were open in the LB&amp;I Division at the time of this review. TIGTA’s results indicated that the IRS may be at greater risk of infringing upon the direct contact provisions during audits than the small number of complaints filed with TIGTA’s Office of Investigations indicate. Twelve tax representatives provided written accounts of their experiences where they believed examiners were starting audits without the authorized representative or insisting on interviewing taxpayers after they had secured representation. In addition, three IRS employees told TIGTA that some examiners routinely contacted taxpayers initially when starting an audit regardless of whether a valid Power of Attorney and Declaration of Representative (Form 2848) was filed with the IRS. Further, TIGTA’s review of 20 open large corporate audits found four instances where examiners contacted taxpayers to begin the audit even though the Form 2848 was in IRS files.</td>
</tr>
<tr>
<td>I.R.C. § 7803(d)(1)(A)(ii)</td>
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Explanation of the Provision:

Requires TIGTA to evaluate the IRS’s compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.

Comments/TIGTA Audit Status:

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<table>
<thead>
<tr>
<th>Reference to Statutory Coverage</th>
<th>Explanation of the Provision</th>
<th>Comments/TIGTA Audit Status</th>
</tr>
</thead>
</table>
| Filing of a Notice of Lien    | Requires TIGTA to evaluate the IRS’s compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien. | Ref. No: 2011-30-051, May 2011  
TIGTA reviewed a statistically valid sample of 125 Federal Tax Liens filed for the 12-month period ending June 30, 2010, and determined that the IRS mailed nearly every lien notice in a timely manner as required by Internal Revenue Code Section 6320. However, TIGTA could not determine if all notices were mailed timely. This could result in violations of taxpayers’ rights.  
In addition, the IRS did not always follow its own regulations for notifying taxpayers’ representatives of the filing of lien notices. IRS regulations require taxpayer representatives be given copies of all correspondence issued to the taxpayer. For four of the 30 cases in the statistically valid sample for which the taxpayer had an authorized representative, the IRS did not notify the taxpayer’s representative of the lien filing. TIGTA estimated that 32,552 taxpayers may have been adversely affected because the IRS did not follow requirements to notify the taxpayers and their representatives of the taxpayers’ rights related to liens.  
When an initial lien notice is returned undeliverable and a different address is available for the taxpayer, the IRS does not always send the lien notice to the taxpayer’s last known address. TIGTA identified cases for which a new lien notice should have been sent to the taxpayer’s updated address because IRS systems reflected the updated address prior to the lien filing. These cases could involve legal violations because the IRS did not meet its statutory requirement to send lien notices to the taxpayer’s last known address. |
<table>
<thead>
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<th>Reference to Statutory Coverage</th>
<th>Explanation of the Provision</th>
<th>Comments/TIGTA Audit Status</th>
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<tbody>
<tr>
<td>Extensions of the Statute of Limitations for Assessment of Tax</td>
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<tr>
<td>I.R.C. § 7803(d)(1)(C)</td>
<td>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</td>
<td></td>
</tr>
<tr>
<td>I.R.C. § 6501(c)(4)(B)</td>
<td>Ref. No: 2011-30-055, June 2011 TIGTA’s case review of 72 taxpayers with statute extensions showed that the IRS is compliant with Internal Revenue Code Section 6501(c)(4)(B). However, case files for four of the 72 taxpayers (5.6 percent) in the statistical sample did not contain documentation to indicate whether taxpayers were directly advised of their rights before consenting to extend the time to assess tax, but the taxpayers’ representative signed the Consent to Extend the Time to Assess Tax (Form 872) and was notified of taxpayer rights regarding extending the assessment statute of limitations. Although notification to the taxpayers’ representatives appears to meet the intent of the law, the IRS’s internal procedures require notification to be provided to both the taxpayer and the representative. TIGTA estimated that 136 taxpayers’ files did not contain documentation to show the taxpayers were directly advised of their rights when assessment statutes were extended. TIGTA is 95 percent confident that the range of taxpayers’ files without this documentation is between six and 265.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TIGTA also identified cases in which IRS employees improperly used an outdated version of the Form 872, which did not contain a statement detailing the taxpayers’ rights. When TIGTA brought this issue to management’s attention, management took immediate action to correct the problem.</td>
<td></td>
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<td></td>
<td>In addition, TIGTA’s statistical sample of 72 taxpayers included 42 taxpayers’ files containing authorizations for third-party representation. TIGTA’s review found that four of the 42 taxpayers’ (9.5 percent) files did not contain documentation that the taxpayers’ representatives were provided with the required notifications. TIGTA estimated that 136 taxpayers’ files were not documented to show that taxpayers’ representatives were given copies of the written communications. TIGTA is 95 percent confident that the</td>
<td></td>
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<td>Reference to Statutory Coverage</td>
<td>Explanation of the Provision</td>
<td>Comments/TIGTA Audit Status</td>
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<td>range of taxpayers’ files without this documentation is between six and 265.</td>
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</table>
| Levies                         | Requires TIGTA to evaluate the IRS’s compliance with required procedures under I.R.C. § 6330 regarding levies. | **Ref. No:** 2011-30-036, March 2011  
The IRS is protecting taxpayers’ rights when issuing systemically generated and manually prepared levies. TIGTA reviewed 30 systemically generated levies identified through the Automated Collection System and Integrated Collection System and determined that systemic controls were effective to ensure that the taxpayers were given notice of their appeal rights at least 30 calendar days prior to the issuance of the levies. In addition, TIGTA identified 60 manual levies issued by employees on those same systems and determined that all the taxpayers were given notice of their appeal rights at least 30 calendar days prior to issuance of the levies. |
| Collection Due Process         | Requires TIGTA to evaluate the IRS’s compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding taxpayers’ rights to appeal lien or levy actions. | **Ref. No:** 2011-10-062, August 2011  
TIGTA identified areas in which Appeals can improve its processing of Collection Due Process cases. Specifically, Appeals did not always grant taxpayers the correct type of hearing. TIGTA found significantly more errors related to the Collection Statute Expiration Dates on taxpayer accounts than during prior audits. TIGTA also found that Appeals personnel are still not always documenting their impartiality or the legal verification statement in their case files. |
### Reference to Statutory Coverage

<table>
<thead>
<tr>
<th>Seizures</th>
<th>I.R.C. § 7803(d)(1)(A)(iv)</th>
</tr>
</thead>
</table>

### Explanation of the Provision

Requires TIGTA to evaluate the IRS’s compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.

### Comments/TIGTA Audit Status

**Ref. No: 2011-30-049, May 2011**

TIGTA reviewed a random sample of 50 of the 578 seizures conducted from July 1, 2009, through June 30, 2010, to determine whether the IRS was complying with legal and internal guidelines when conducting each seizure. In the majority of seizures, the IRS followed all guidelines, and TIGTA did not identify any instances in which the taxpayers were adversely affected.

However, TIGTA found instances in which:

- The amount of the liability for which the seizure was made was not correct on the notice of seizure provided to the taxpayer. (I.R.C. § 6335(a))
- The sale of the seized property was not advertised as required. (I.R.C. § 6335(b))
- Expenses and proceeds resulting from the seizure were not properly applied to the taxpayer’s account. (I.R.C. § 6342(a))

When legal and internal guidelines are not followed, it could result in the abuse of taxpayers’ rights.

Over the past several years, the IRS has implemented procedures and controls significantly improving compliance with legal and internal guidelines.
<table>
<thead>
<tr>
<th>Reference to Statutory Coverage</th>
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<th>Comments/TIGTA Audit Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</strong>&lt;br&gt;I.R.C. § 7803(d)(1)(A)(v)</td>
<td>An evaluation of the IRS’s compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.</td>
<td><strong>Ref. No: 2011-30-040, April 2011</strong>&lt;br&gt;The IRS has not reintroduced past Illegal Tax Protester codes or similar designations on taxpayer accounts. In addition, the Internal Revenue Manual no longer contains any Illegal Tax Protester references. However, TIGTA found that out of approximately 3.6 million records and cases, there were 38 instances in which 34 employees had referred to taxpayers as “Tax Protester,” “Constitutionally Challenged,” or other similar designations in case narratives on the computer systems analyzed.</td>
</tr>
<tr>
<td><strong>Disclosure of Collection Activities With Respect to Joint Returns</strong>&lt;br&gt;I.R.C. § 7803(d)(1)(B)&lt;br&gt;I.R.C. § 6103(e)(8)</td>
<td>Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</td>
<td><strong>Ref. No: 2011-30-077, July 2011</strong>&lt;br&gt;IRS procedures provide employees with sufficient guidance for handling joint filer collection activity information requests. However, TIGTA could not determine whether the IRS fully complied with I.R.C. § 6103(e)(8) requirements when responding to written collection activity information requests from joint filers. IRS management information systems did not separately record or monitor joint filer requests, and there was no legal requirement for the IRS to do so. Further, TIGTA did not recommend the creation of a separate tracking system.</td>
</tr>
<tr>
<td><strong>Taxpayer Complaints</strong>&lt;br&gt;I.R.C. § 7803(d)(2)(A)</td>
<td>Requires TIGTA to include in each of its Semiannual Reports to Congress the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</td>
<td>Statistical results on the number of taxpayer complaints received are shown on page 85.</td>
</tr>
<tr>
<td>Reference to Statutory Coverage</td>
<td>Explanation of the Provision</td>
<td>Comments/TIGTA Audit Status</td>
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</tbody>
</table>
| Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996  
I.R.C. § 7803(d)(1)(G)  
I.R.C. § 6304  
RRA 98 § 3466 | Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted. | Ref. No: 2011-10-045, April 2011  
No Fair Tax Collection Practices violations were identified for cases on the IRS Human Capital Office Workforce Relation’s Automated Labor and Employee Relations Tracking System that were closed in FY 2010. In addition, no cases were identified that were miscoded as Fair Tax Collection Practices violations and should not have been or that should have been coded as violations but were not. Further, there were no civil actions resulting in monetary settlements paid to taxpayers because of a Fair Tax Collection Practices violation. |
| Denial of Requests for Information  
I.R.C. § 7803(d)(1)(F)  
I.R.C. § 7803(d)(3)(A) | Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7). | Ref. No: 2011-30-093, September 2011  
The IRS continued to improve the accuracy and completeness of its responses to requests for information covered by the FOIA. IRS Disclosure personnel continued to follow required procedures on all 61 FOIA/Privacy Act requests that TIGTA reviewed. The IRS also properly adhered to the legal requirements under I.R.C. § 6103 in all 65 requests that TIGTA reviewed.  
Since FY 2000, the IRS has made significant improvement in responding timely to FOIA/Privacy Act requests. The increase in responsiveness may, in part, be due to the continued decrease in the numbers of FOIA/Privacy Act requests received since TIGTA’s first review in FY 2000. |
<table>
<thead>
<tr>
<th>Reference to Statutory Coverage</th>
<th>Explanation of the Provision</th>
<th>Comments/TIGTA Audit Status</th>
</tr>
</thead>
</table>
| Adequacy and Security of the Technology of the IRS | Requires TIGTA to evaluate the IRS’s adequacy and security of its technology. | **Information Technology Reviews:**  
Ref. No. 2011-20-001, November 2010  
Ref. No. 2011-20-006, December 2010  
Ref. No. 2011-20-007, February 2011  
Ref. No. 2011-20-060, June 2011  
Ref. No. 2011-20-078, August 2011  
Ref. No. 2011-20-076, August 2011  
Ref. No. 2011-20-074, September 2011  
Ref. No. 2011-20-088, September 2011  
Ref. No. 2011-20-099, September 2011  
Ref. No. 2011-20-105, September 2011  
Ref. No. 2011-20-106, September 2011  
Ref. No. 2011-20-109, September 2011  
Ref. No. 2011-20-110, September 2011  
Ref. No. 2011-20-127, September 2011  

**Security Reviews:**  
Ref. No. 2011-20-003, November 2010  
Ref. No. 2011-20-012, February 2011  
Ref. No. 2011-20-046, May 2011  
Ref. No. 2011-20-101, September 2011  
Ref. No. 2011-20-111, September 2011  
Ref. No. 2011-20-116, September 2011 |
<table>
<thead>
<tr>
<th>Reference to Statutory Coverage</th>
<th>Explanation of the Provision</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Financial Management Improvement Act of 1996 (FFMIA)</strong></td>
<td>Requires TIGTA to report to Congress instances when the IRS has not met the intermediate target dates established in its remediation plan and the reasons why those dates were not met.</td>
<td><strong>Ref. No: 2011-10-041, May 2011</strong>&lt;br&gt;The IRS continues to face challenges with becoming compliant with the FFMIA. TIGTA’s review of the IRS’s September 30, 2010, FFMIA remediation plan found that the IRS did not include any remediation actions for the Customer Account Data Engine 2 (CADE 2). TIGTA believed these actions should have been included in the remediation plan because CADE 2 is the key piece of the IRS’s strategy to address its material weakness related to unpaid assessments. Additionally, the IRS continues to experience difficulty in reporting complete and accurate resource estimates for several other actions included in the remediation plan. Without appropriate estimates, the remediation actions could be delayed due to insufficient resources being available when needed.</td>
</tr>
<tr>
<td>31 U.S.C. § 3512</td>
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<tr>
<td><strong>Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions</strong></td>
<td>Requires TIGTA to express a conclusion about the reliability of the IRS’s ONDCP detailed accounting submission and assertions.</td>
<td><strong>Ref. No: 2011-10-021, January 2011</strong>&lt;br&gt;TIGTA reviewed the IRS’s ONDCP Detailed Accounting Submission and Performance Summary Report for FY 2010, which ended September 30, 2010. The IRS is responsible for preparing this report. Based on the review, nothing came to TIGTA’s attention that caused it to believe that the assertions in the report were not appropriately presented in all material respects in accordance with ONDCP-established criteria. The IRS reported that it expended $61.3 million on ONDCP-related activities and completed 405 ONDCP-related cases that resulted in convictions in FY 2010. The IRS also reported that it participated in 405 ONDCP-related cases that resulted in convictions, with an 82.3 percent conviction rate.</td>
</tr>
</tbody>
</table>
Appendix IV
Section 1203 Standards

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

Misconduct violations include:

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

The Commissioner of Internal Revenue may mitigate the penalty of removal for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner, in his/her sole discretion, may establish a procedure that will be used to decide whether an individual should be referred to the Commissioner for determination. Any mitigation determination by the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.
Appendix V
Implementing Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act Inspector General Peer Review Activity
April 1, 2011 through September 30, 2011

Last Peer Review Conducted on TIGTA Office of Investigations

On September 12, 2011, the United States Social Security Administration, Office of the Inspector General, began its review of TIGTA’s Office of Investigations. It is anticipated that this review will be completed by October 31, 2011.
Appendix VI
Data Tables Provided by the IRS

The memorandum copied below is the IRS’s transmittal to TIGTA. The tables that follow the memorandum contain information that the IRS provided to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period from April 1, 2011 through September 30, 2011. Also, data concerning substantiated RRA 98 §1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.
Reports of Employees Misconduct for the Period
April 1, 2011 through September 30, 2011
Summary by Disposition Groups
(Tables Provided by the IRS)

<table>
<thead>
<tr>
<th>Disposition</th>
<th>TIGTA Investigations</th>
<th>Administrative Cases</th>
<th>Employee Tax Matter Cases</th>
<th>Background Investigations</th>
<th>Totals</th>
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<td>Separation of Probationary Employees</td>
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<td>Separation of Temporary Employees</td>
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<td>18</td>
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<td>Suspensions</td>
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<td>265</td>
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<td>396</td>
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<td>181</td>
<td>86</td>
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<td>Suspended – Waiting Supplemental</td>
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<td>Termination for Abandonment of Position</td>
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<td>Termination for Other Than Job Abandonment</td>
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<td>Case Suspended Pending Employee Return to Duty</td>
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<td>Prosecution Pending for TIGTA ROI's</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>813</strong></td>
<td><strong>1,827</strong></td>
<td><strong>1,207</strong></td>
<td><strong>534</strong></td>
<td><strong>4,381</strong></td>
</tr>
</tbody>
</table>

Notes:
*Columns containing numbers of two or less and protected by I.R.C. Section 6103 are annotated with a 0.

Source: Automated Labor and Employee Relations Tracking System (ALERTS)
This report is being produced in accordance with 26 USC 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999
Extract Date: Monday, October 03, 2011 Report ID = T1R3a
Reports of Employee Misconduct for the Period
April 1, 2011 through September 30, 2011
National Summary
(Tables Provided by the IRS)

<table>
<thead>
<tr>
<th>Inventory Case Type</th>
<th>Opening Inventory</th>
<th>Conduct Cases Received</th>
<th>Cases Closed</th>
<th>Conduct Issues</th>
<th>Duplicates</th>
<th>Non-Conduct Issues</th>
<th>Closing Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIGTA Investigations ROI¹¹¹</td>
<td>476</td>
<td>874</td>
<td>(813)</td>
<td>(0)</td>
<td>(0)</td>
<td>537</td>
<td></td>
</tr>
<tr>
<td>Administrative Case¹²</td>
<td>564</td>
<td>1,825</td>
<td>(1,827)</td>
<td>(17)</td>
<td>(13)</td>
<td>532</td>
<td></td>
</tr>
<tr>
<td>Employee Tax Compliance Case¹¹³</td>
<td>508</td>
<td>1,301</td>
<td>(1,207)</td>
<td>(15)</td>
<td>(0)</td>
<td>587</td>
<td></td>
</tr>
<tr>
<td>Background Investigations¹¹⁴</td>
<td>193</td>
<td>476</td>
<td>(534)</td>
<td>(0)</td>
<td>(0)</td>
<td>135</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,741</strong></td>
<td><strong>4,476</strong></td>
<td><strong>(4,381)</strong></td>
<td><strong>(32)</strong></td>
<td><strong>(13)</strong></td>
<td><strong>1,791</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

This report is being produced in accordance with 26 USC 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999

Extract Date: Monday, October 03, 2011    Report ID = T1R1

¹¹¹ TIGTA Investigations (ROI) - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred a ROI to IRS for appropriate action.
¹¹² Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.
¹¹³ Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.
¹¹⁴ Background Investigation - Any matter involving a National Background Information Center investigation into an employee’s background that is referred to management for appropriate action.
## Summary of Substantiated I.R.C. Section 1203 Allegations
Recorded in ALERTS for the Periods
April 1, 2011 through September 30, 2011
(Tables Provided by the IRS)

<table>
<thead>
<tr>
<th>§ 1203 Violation</th>
<th>Removals</th>
<th>Resigned/Retired</th>
<th>Probation Separation</th>
<th>Removed on Other Grounds</th>
<th>Penalty Mitigated</th>
<th>In Personnel Process</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seizure Without Approval</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>False Statement Under Oath</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Constitutional &amp; Civil Rights Issues</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Falsifying or Destroying Records</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Assault or Battery</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retaliate or Harass</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Misuse of § 6103</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Failure to Timely File/ Understatement of Tax Liability</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>16</td>
<td>24</td>
<td>31</td>
<td>75</td>
</tr>
<tr>
<td>Threat to Audit for Personal Gain</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>0</td>
<td>4*</td>
<td>0</td>
<td>18*</td>
<td>24</td>
<td>32*</td>
<td>79</td>
</tr>
</tbody>
</table>

Notes:
*Columns containing numbers of two or less and protected by I.R.C. Section 6103 are annotated with a 0.

Source: Automated Labor and Employee Relations Tracking System (ALERTS) and 1203 Review Board records.
Extract Date: Tuesday, October 04, 2011

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¹¹⁵ The cases reported as “Removals” and “Penalty Mitigated” do not reflect the results of any third party appeal.
# Glossary of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTC</td>
<td>Additional Child Tax Credit</td>
</tr>
<tr>
<td>AIS</td>
<td>Automated Insolvency System</td>
</tr>
<tr>
<td>ALERTS</td>
<td>Automated Labor and Employee Relations Tracking System</td>
</tr>
<tr>
<td>AWSS</td>
<td>Agency-Wide Shared Services</td>
</tr>
<tr>
<td>CAU</td>
<td>Caution Upon Contact</td>
</tr>
<tr>
<td>CADE</td>
<td>Customer Account Data System</td>
</tr>
<tr>
<td>CI</td>
<td>Criminal Investigation Division</td>
</tr>
<tr>
<td>CQC</td>
<td>Controlled Quality Corporation</td>
</tr>
<tr>
<td>CTC</td>
<td>Child Tax Credits</td>
</tr>
<tr>
<td>CWA</td>
<td>Central Withholding Agreement</td>
</tr>
<tr>
<td>DOD</td>
<td>Department of Defense</td>
</tr>
<tr>
<td>EFIN</td>
<td>Electronic Filing Identification Number</td>
</tr>
<tr>
<td>EITC</td>
<td>Earned Income Tax Credit</td>
</tr>
<tr>
<td>FBI</td>
<td>Federal Bureau of Investigation</td>
</tr>
<tr>
<td>FFMIA</td>
<td>Federal Financial Management Improvement Act of 1996</td>
</tr>
<tr>
<td>FLETA</td>
<td>Federal Law Enforcement Training Accreditation</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GPO</td>
<td>Government Printing Office</td>
</tr>
<tr>
<td>GSA</td>
<td>General Services Administration</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>I&amp;E</td>
<td>Inspections and Evaluations</td>
</tr>
<tr>
<td>I.R.C.</td>
<td>Internal Revenue Code</td>
</tr>
<tr>
<td>IRM</td>
<td>Internal Revenue Manual</td>
</tr>
<tr>
<td>ITIN</td>
<td>Individual Taxpayer Identification Number</td>
</tr>
<tr>
<td>IVES</td>
<td>Income Verification Express Services</td>
</tr>
<tr>
<td>LB&amp;I</td>
<td>Large Business and International Division</td>
</tr>
<tr>
<td>MITS</td>
<td>Modernization and Information Technology Services</td>
</tr>
<tr>
<td>NRA</td>
<td>Nonresident Alien</td>
</tr>
<tr>
<td>NTEU</td>
<td>Nation Treasury Employees Union</td>
</tr>
<tr>
<td>OA</td>
<td>Office of Audit</td>
</tr>
<tr>
<td>OEP</td>
<td>Office of Employee Protection</td>
</tr>
<tr>
<td>OI</td>
<td>Office of Investigation</td>
</tr>
<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
</tr>
<tr>
<td>ONDCP</td>
<td>Office of National Drug Control Policy</td>
</tr>
<tr>
<td>PDT</td>
<td>Potentially Dangerous Taxpayer</td>
</tr>
<tr>
<td>PFD</td>
<td>Procurement Fraud Division</td>
</tr>
<tr>
<td>PII</td>
<td>Personally Identifiable Information</td>
</tr>
<tr>
<td>POWER</td>
<td>Protecting Our Workers and Ensuring Reemployment</td>
</tr>
<tr>
<td>PTIN</td>
<td>Preparer Tax Identification Number</td>
</tr>
<tr>
<td>RCT</td>
<td>Religious Compensatory Time</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>----------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>TIGTA</td>
<td>Treasury Inspector General for Tax Administration</td>
</tr>
<tr>
<td>TIRC</td>
<td>Threat Information and Critical Response Initiative</td>
</tr>
<tr>
<td>TTY/TDD</td>
<td>Tele-Typewriter/Telecommunications Device</td>
</tr>
<tr>
<td>UNAX</td>
<td>Unauthorized Access</td>
</tr>
<tr>
<td>U.S.</td>
<td>United States</td>
</tr>
<tr>
<td>TE/GE</td>
<td>Tax Exempt and Government Entities</td>
</tr>
<tr>
<td>SHARE</td>
<td>Safety, Health, and Return to Employment</td>
</tr>
<tr>
<td>SDS</td>
<td>Strategic Data Services Division</td>
</tr>
<tr>
<td>SAMC</td>
<td>Situational Awareness Management Center</td>
</tr>
<tr>
<td>SB/SE</td>
<td>Small Business/Self-Employed</td>
</tr>
<tr>
<td>ROTERs</td>
<td>Record of Tax Enforcement Results</td>
</tr>
<tr>
<td>RRA 98</td>
<td>IRS Restructuring and Reform Act of 1998</td>
</tr>
<tr>
<td>SAR</td>
<td>Semiannual Report</td>
</tr>
<tr>
<td>SB/SE</td>
<td>Small Business/Self-Employed</td>
</tr>
<tr>
<td>RO</td>
<td>Revenue Officers</td>
</tr>
<tr>
<td>REFM</td>
<td>Real Estate and Facilities Management</td>
</tr>
<tr>
<td>APR</td>
<td>April</td>
</tr>
<tr>
<td>SEP</td>
<td>September</td>
</tr>
<tr>
<td>2011</td>
<td>Year</td>
</tr>
</tbody>
</table>
CALL OUR TOLL-FREE HOTLINE
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BY WEB:
www.treas.gov/tigta/

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

Information you provide is confidential and you may remain anonymous.