
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



***Undercover Travel Expenses Were
Generally Supported; However,
Controls Could Be Improved***

May 15, 2020

Reference Number: 2020-10-030

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

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HIGHLIGHTS

UNDERCOVER TRAVEL EXPENSES WERE GENERALLY SUPPORTED; HOWEVER, CONTROLS COULD BE IMPROVED

Highlights

Final Report issued on May 15, 2020

Highlights of Reference Number: 2020-10-030 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

In performing the law enforcement mission of the IRS, Criminal Investigation (CI) performs various undercover operations. In Fiscal Year 2018, the IRS spent more than \$1.3 million through imprest (cash) funds on undercover confidential operations, including associated travel costs. It is critical that CI maintains proper oversight over imprest funds in order to promote the economic and efficient use of publicly funded resources and prevent improper payments.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether CI's use of imprest funds for confidential travel expenses supporting undercover operations complies with IRS, Department of the Treasury, and Federal financial and travel policies.

WHAT TIGTA FOUND

CI's undercover travel expenses were generally supported by adequate documentation based on our review of 49 Fiscal Year 2018 vouchers that included undercover travel expenditures.

However, controls over undercover travel expenditures and the CI investigative imprest fund could be enhanced in several key areas. Specifically, CI procedures do not require advance approval for hotel rooms exceeding per diem and the use of luxury rental cars. During our review of CI's undercover confidential travel expenses, TIGTA determined that 33 (67 percent) of the 49 vouchers reviewed had one or more instances of agents renting hotel rooms with costs in excess of the General Services Administration limits. TIGTA also

identified the use of luxury vehicles without documented management approval.

In addition, 26 (53 percent) of 49 vouchers reviewed were supported by travel receipts for which the travel reservations contained the agents' actual names and, in some cases, indicated that the agents were Government employees or that the travel was Government related. This practice raises concerns that either agent safety was potentially compromised or the imprest fund may have been used unnecessarily. Finally, quarterly audits of CI imprest funds were not always staffed to maximize independence, and as a result, the effectiveness of these reviews was compromised.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief, CI: 1) require management's approval for reserving hotel rooms exceeding the applicable temporary duty location rate and the use of luxury vehicles, and require agents to include management's prior approval in their travel voucher documentation, and 2) periodically assess undercover travel on a function-wide basis to identify potential areas for improved efficiency, to identify best practices to ensure agents' safety, and to ensure that the investigative imprest fund is only used when needed to maintain the security of undercover operations.

TIGTA also recommended that the Commissioner, Small Business/Self-Employed Division, clarify internal guidance to ensure that the audit team assigned to perform CI imprest fund audits rotates assignments in a way that maximizes independence.

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



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 15, 2020

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

Michael E. McKenney

FROM:

Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved
(Audit # 201910009)

This report presents the results of our review to determine whether Criminal Investigation's use of imprest funds for confidential travel expenses supporting undercover operations complies with Internal Revenue Service, Department of the Treasury, and Federal financial and travel policies. This audit is included in our Fiscal Year 2020 Annual Audit Plan and addresses the major management challenge of Achieving Operational Efficiencies.

Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Heather M. Hill, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations).



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Table of Contents

[Background](#).....Page 1

[Results of Review](#)Page 4

[Undercover Agents Reserved Hotel Rooms Exceeding Per Diem and Luxury Rental Cars Without Documented Advance Approval](#)Page 4

[Recommendation 1:](#).....Page 5

[Use of Real Names on Undercover Travel Documents Raises Concerns That Either Agents’ Safety Was Compromised or the Imprest Fund Was Used Unnecessarily](#)Page 6

[Recommendation 2:](#).....Page 7

[Quarterly Audits of Criminal Investigation Imprest Funds Were Not Always Staffed in a Way That Maximizes Independence](#)Page 7

[Recommendation 3:](#).....Page 8

Appendices

[Appendix I – Detailed Objective, Scope, and Methodology](#)Page 9

[Appendix II – Major Contributors to This Report](#)Page 11

[Appendix III – Report Distribution List](#)Page 12

[Appendix IV – Management’s Response to the Draft Report](#)Page 13



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Abbreviations

CI	Criminal Investigation
FY	Fiscal Year
GSA	General Services Administration
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Background

Criminal Investigation (CI) serves as the law enforcement arm of the Internal Revenue Service (IRS). To support its mission to investigate and enforce the Internal Revenue Code, CI performs various undercover operations. In order to provide funding for these operations and to ensure the confidentiality of expenditure records, CI uses investigative imprest funds. Imprest funds are cash advanced to an authorized cashier¹ for a specific purpose, e.g., enforcement of the Internal Revenue Code, and charged against a Government appropriations account.² CI maintains investigative imprest funds in checking accounts.

During Fiscal Year 2018, the IRS spent more than \$1.3 million for undercover confidential operations, including associated travel costs.

In November 1999, the Department of the Treasury required that all imprest funds be eliminated unless they met specific waiver criteria. The IRS maintains its imprest funds based on this waiver authority, which allows for the use of imprest funds when the life or physical safety of any individual may be endangered or a law enforcement action may be compromised.³ At the end of Fiscal Year (FY)⁴ 2018, the IRS maintained six investigative imprest funds, with a combined total value of more than \$2.5 million. During FY 2018, the IRS spent more than \$1.3 million from imprest funds for undercover confidential operations, including associated travel costs. IRS CI stated that during FY 2018, significant changes were made to the imprest fund program resulting in the closure of 24 investigative imprest funds.

CI confidential travel expenses, such as travel costs for undercover team members, are reimbursed directly through one of the investigative imprest funds. The Beckley Finance Center, which is within the IRS Chief Financial Office, tracks and records expenditures associated with the IRS's undercover operations and is responsible for the monthly reimbursement of investigative imprest funds for any expenditures paid during the month.⁵ The Beckley Finance

¹ Cashiers are responsible for maintaining imprest funds, including advancing funds and reimbursing approved expenditures. A cashier and an alternate cashier are assigned to maintain each investigative imprest fund. Cashiers cannot be personnel authorized to grant approval for investigative expenditures.

² The maximum amount for each imprest fund varies. The special agent in charge determines the funding level for the imprest fund, which is then approved by the Director, Beckley Finance Center.

³ Internal Revenue Manual 1.35.18.2 (Dec. 18, 2015) and 31 Code of Federal Regulation § 208.4 (a)(5) (2010).

⁴ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

⁵ The Accounts Payable Financial Operations, Miscellaneous Programs Unit is the specific office within the Beckley Finance Center that over sees the imprest fund.

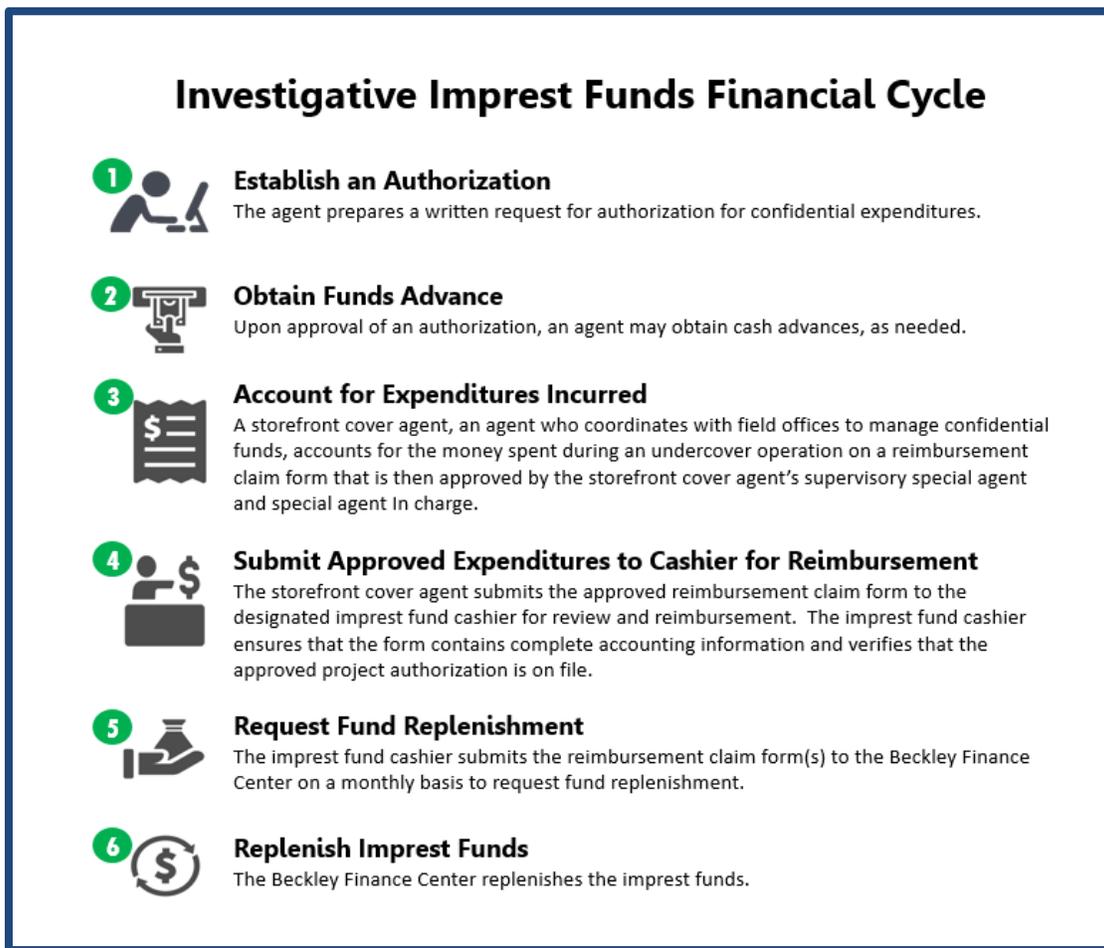


Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Center is also responsible for updating the IRS's Integrated Financial System accounting records to reflect reimbursements and record associated expenditures in the correct accounts.⁶

Figure 1 outlines the six key steps involved in funding undercover operations, including confidential travel, from investigative imprest funds.

Figure 1: The IRS's Key Steps for Funding Expenses Associated With Undercover Operations



Source: Treasury Inspector General for Tax Administration analysis of Internal Revenue Manual (IRM) Section 9.11.1 Fiscal and Budgetary Matters.

In order to provide oversight over imprest funds, the Small Business/Self-Employed (SB/SE) Division is responsible for performing quarterly audits of all CI imprest funds. Two SB/SE Division employees with auditing backgrounds are required to conduct the quarterly audits. To

⁶ The Integrated Financial System is the IRS's official administrative financial management system; it contains the general ledger accounts and their respective balances.



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

ensure the independence of the reviews, no two individuals are allowed to conduct consecutive audits. For example, auditors A and B can perform the first quarter audit, auditors B and C can perform the second quarter audit, and auditors A and C can perform the third quarter audit, *etc.*

Quarterly imprest fund audits are required to be conducted before the end of each quarter at irregular intervals without any prior notice to CI. In addition, the quarterly audits must be conducted at the cashier's office. These audits include a confirmation of the funds' bank balances and a review of fund reconciling items such as vouchers still in transit. These audits do not include a review of the supporting documentation such as expense logs and receipts supporting specific transactions.

This review was performed at the Headquarters of CI and CI field offices in Washington, D.C.; Long Island, New York; Pittsburgh, Pennsylvania; and Richmond, Virginia, during the period October 2018 through November 2019. We also conducted audit work at the Beckley Finance Center located in Beckley, West Virginia. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Results of Review

During FY 2018, CI agents filed 161 vouchers related to more than \$1.3 million of undercover operation costs that were reimbursed through IRS investigative imprest funds. We reviewed a statistically valid sample of 72 vouchers and determined that 49⁷ contained confidential travel expenditures totaling more than \$249,000.⁸ We reviewed the 49 vouchers with confidential travel expenditures and determined that, generally, the confidential travel expenses were adequately supported.

However, we did find that controls over undercover travel expenditures and the CI investigative imprest fund could be enhanced in several key areas. For example, we identified travel expenses for hotels that exceeded per diem without documented advance approval. We identified the use of luxury vehicles without documented management approval. We also determined that, for some vouchers reviewed, agents did not use their alias for travel reservations, which raises concerns that either agents' safety was compromised or the imprest fund was used unnecessarily. Quarterly audits of CI imprest funds were not always staffed to maximize independence, and as a result, the effectiveness of these reviews was compromised.

Undercover Agents Reserved Hotel Rooms Exceeding Per Diem and Luxury Rental Cars Without Documented Advance Approval

During our review of CI's undercover confidential travel expenses, we determined that 33 (67 percent) of the 49 vouchers reviewed had one or more instances of agents renting hotel rooms with costs in excess of the General Services Administration (GSA) per diem limits. We identified 99 instances in which lodging costs were in excess of per diem limits.⁹ We determined that almost \$17,000 (38 percent) of the more than \$44,000 in total lodging costs reviewed were in excess of the per diem. Additionally, for 14 instances, the hotel room costs exceeded the GSA limit by more than 100 percent. Only one of the instances included an explanation as to why the hotel exceeded the GSA limit.

We also determined that 10 (20 percent) of the 49 vouchers had one or more instances of agents renting luxury vehicles. There were 15 total instances in which this occurred. The rental cars

⁷ We selected a statistical sample using a confidence level of 95 percent, an expected error rate of 20 percent, and a precision factor of ± 8 percent. We used a stratified sampling technique to ensure that vouchers from all seven of the cashier locations (which processed undercover vouchers) in our population were included in our preliminary review. The sample of 72 vouchers was then reduced to the 49 vouchers containing travel expenditures.

⁸ A single voucher may contain several trips for multiple agents.

⁹ An "instance" is any receipt with one or more lodging cost (excluding taxes) above the associated GSA per diem rate.



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

included Cadillac, Range Rover, and Mercedes Benz automobiles. None of the 10 vouchers included an explanation as to why the agents rented a luxury vehicle.

The Federal Travel Regulation states that travelers must use the least expensive compact car available, unless an exception for another class of vehicle is approved, when reserving a rental car.¹⁰ In addition, the Federal Travel Regulation requires individuals to be reimbursed for lodging rates applicable to the temporary duty location.¹¹ Under certain circumstances, the Federal Travel Regulation allows travelers to book hotel rooms exceeding the temporary duty location rate determined by the GSA. For example, agencies may authorize or approve up to 300 percent of per diem costs in order to satisfy mission requirements. In addition, for general IRS employee travel, IRM procedures state that reimbursement for actual expenses for per diem rates over the standard GSA published rates must be approved by a first-level executive.¹² The IRM does not exempt CI undercover travel from this approval requirement.

Due to the nature of the undercover operation, luxury cars and hotels may be necessary to help promote the undercover agents' cover story. However, CI stated that it does not require a manager's documented prior approval to reserve hotels in excess of the temporary duty location rate or to rent luxury vehicles. Without management's advance approval for reserving hotels in excess of the temporary duty location rate and the use of luxury vehicles, the IRS cannot ensure that the excess costs associated with these reservations, paid through the CI imprest fund, are cost effective and necessary to conduct an undercover operation.

Recommendation

Recommendation 1: The Chief, CI, should ensure that management's approval is obtained when reserving hotel rooms exceeding the applicable temporary duty location rate and the use of luxury vehicles and require agents to include management's prior approval in their travel voucher documentation.

Management's Response: IRS management agreed with this recommendation. IRS CI has already started implementing this change during the approval process of future operations.

¹⁰ 41 Code of Federal Regulations § 301-10.450 (c) (2015).

¹¹ 41 Code of Federal Regulations § 301-11.7 (2011).

¹² IRM 1.32.11.5.2.2 (3) (July 2, 2019).



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Use of Real Names on Undercover Travel Documents Raises Concerns That Either Agents' Safety Was Compromised or the Imprest Fund Was Used Unnecessarily

Agents involved with undercover operations sometime used their real names, rather than their aliases, on reservation documents. One of the primary purposes of using an alias, rather than an actual name, during undercover travel is to maintain confidentiality so as not to expose the agents' identity, which could subject them to danger or jeopardize the investigation. However, we determined for 26 (53 percent) of the 49 vouchers reviewed, receipts contained the agents' actual names and, in some cases, indicated that the agents were Government employees or that the travel was Government related. There were 123 total instances in which this occurred. Specifically:

- 21 (43 percent) of the 49 vouchers reviewed had one or more instances of agents reserving hotel rooms using their real names instead of an alias. There were 108 total instances in which this occurred.
- 5 (10 percent) of the 49 vouchers reviewed had one or more instances of agents reserving rental cars using their real names instead of an alias. There were 15 total instances in which this occurred.

Commercial travel companies frequently booked the travel reservations, including the rental cars, and the documentation associated with these bookings indicated the travel was Government related and paid with a Government credit card instead of using an undercover alias credit card. This disclosure raises concerns that agent safety could be compromised. For example, renting cars for an undercover operation in the agents' actual names and using an associated Government credit card could result in the inadvertent exposure of the agent's identity.

Conversely, if confidentiality is not a concern and disclosing the Government nature of these travel trips will not affect the agents' safety, then it may be more efficient to simply process the travel through the IRS's official travel system instead of through the imprest fund. The use of imprest funds to process travel is a cumbersome manual process, requiring significant CI and Chief Financial Office resources that could potentially be put to better use. The imprest fund process also lacks the automated controls in the IRS's official travel system, such as automatic calculation of per diem amounts based on the travel location selected.

Although CI's policies and procedures do not specifically require agents to make travel arrangements using their alias identity when using the investigative imprest fund, the IRM procedures specify that reimbursement for confidential expenditures should be claimed only through imprest funds. However, the purpose of the imprest fund is to protect the life or physical safety of an individual or to protect law enforcement action from being compromised. Use of the imprest fund for any other reason is an inefficient use of resources. Further, we found no evidence that CI periodically assesses confidential travel expenses on a function-wide basis to



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

identify potential areas for improvement and best practices. A periodic review may identify if the investigative imprest fund is used for purposes potentially unrelated to undercover work.

Recommendation

Recommendation 2: The Chief, CI, should periodically assess undercover travel on a function-wide basis to identify potential areas for improved efficiency, to identify best practices to ensure agents' safety, and to ensure that the investigative imprest fund is only used for travel costs when needed to maintain the security of undercover operations.

Management's Response: IRS management agreed with this recommendation and is developing procedures to move non-alien travel to the IRS's official travel system for authorizations and vouchers, if operationally feasible.

Quarterly Audits of Criminal Investigation Imprest Funds Were Not Always Staffed in a Way That Maximizes Independence

Quarterly audits of CI imprest funds were not always staffed in a way that maximizes independence. The SB/SE Division is responsible for performing quarterly audits of all CI imprest funds. The IRS's IRM states that quarterly audits are required to be conducted before the end of each quarter and at irregular intervals.¹³ The audit team can consist of three or more individuals; however, no two auditors will conduct consecutive audits of the same fund. Although the SB/SE Division uses a two-person audit team to perform the quarterly CI imprest fund audits, it did not ensure that audit responsibilities were further rotated to ensure maximum independence. Rotation of assigned staff helps ensure the independence of the audit team from the auditee and prevents the complacency that might arise if the same team or individual continually performs the review.

We reviewed the quarterly audits of the CI investigative imprest funds performed during FY 2018 and the first quarter of FY 2019.¹⁴ We determined that one auditor performed all five quarterly audits for three of the six funds we reviewed; however, the other auditor assigned to these three reviews was rotated as required. The IRS SB/SE Division stated that it relied on the guidance in the IRM and associated Memorandum of Understanding which, although requiring that no two auditors serve consecutively, does not specifically address how many audits a single auditor can audit consecutively. The total value of the three funds for which audit staff was not rotated to maximize independence was almost \$1.3 million as of the first quarter of FY 2018. The effectiveness of quarterly reviews of CI imprest funds by SB/SE Division staff is significantly compromised when personnel assigned to these audits are not rotated to maximize independence.

¹³ IRM 4.8.8 and 4.8.8.15.1(2) (Dec. 2017).

¹⁴ Quarterly audits of all investigative funds open as of the end of FY 2018 were reviewed.



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Recommendation

Recommendation 3: The Commissioner, SB/SE Division, should revise the IRM and associated Memorandum of Understanding guiding the performance of quarterly imprest fund audits to specifically address how many times any single auditor should consecutively perform quarterly audits.

Management's Response: The IRS agreed with this recommendation. The IRS SB/SE Division will revise the IRM and revise or rescind the associated Memorandum of Understanding guiding the performance of quarterly imprest fund audits to clarify that no single auditor should consecutively perform quarterly audits.



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether CI's use of imprest funds for confidential travel expenses supporting undercover operations complies with IRS, Department of the Treasury, and Federal financial and travel policies. To accomplish this objective, we:

- I. Identified and reviewed policies and procedures over CI's use of imprest funds for undercover confidential travel expenditures.
- II. Assessed the adequacy of internal controls over CI's use of investigative imprest funds for confidential travel expenditures.
- III. Determined the total amount of confidential travel expenditures paid through the investigative imprest fund during FY 2018.
- IV. Evaluated a statistical sample of 49 imprest fund travel expenditures from the total population of 161 vouchers (paid through the investigative imprest fund) during FY 2018.
- V. Determined whether SB/SE Division staff performed a quarterly audit of all CI imprest funds open as of the end of FY 2018.

Data validation methodology

We performed validation tests to ensure the reliability of the FY 2018 CI confidential travel expenditures recorded in the Integrated Financial System. This testing included evaluating whether all confidential travel expenses were recorded, did not contain duplicate values, and had values within expected ranges. Overall, we determined that the extracted data were reliable for the purposes of our substantive testing, which focused on an in-depth analysis of the accuracy of selected sample cases through the review of source documentation.

Sampling methodology

We selected a statistically valid stratified sample of undercover confidential travel expenses recorded in the Integrated Financial System in FY 2018. We met with the Treasury Inspector General for Tax Administration's contract statistician to discuss this audit and the associated sampling plan.

The following criteria were used to select the sample:

- Population size – 161 undercover vouchers recorded in the Integrated Financial System in FY 2018, totaling \$1,317,974.



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

- Preliminary sample size – 72 vouchers were selected from the seven cashier locations (which processed undercover vouchers) included in our population.
- Vouchers reviewed – 49 of the 72 selected vouchers contained travel-related expenses.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's policies and procedures for reimbursing and maintaining accountability over undercover confidential travel expenses, monthly imprest fund reconciliations, and quarterly audits of imprest fund accounts. We evaluated these controls by interviewing IRS management, reviewing documentation supporting undercover confidential travel expenses, and evaluating the quarterly imprest fund reconciliation procedures.



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Appendix II

Major Contributors to This Report

Heather Hill, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations)

LaToya Penn, Director

Anthony Choma, Audit Manager

Brandon Crowder, Lead Auditor

James Mills, Senior Auditor

Morgan Little, Auditor



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Appendix III

Report Distribution List

Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Chief, Criminal Investigation
Chief Financial Officer
Commissioner, Small Business/Self-Employed Division
Deputy Commissioner, Small Business/Self-Employed Division
Director, Enterprise Audit Management



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Appendix IV

Management's Response to the Draft Report



Criminal Investigation

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

April 16, 2020

MEMORANDUM FOR Michael E. Mckenney
Deputy Assistant Inspector General For Audit

FROM:

Guy A. Ficco

Executive Director, Operations Policy & Support
IRS-Criminal Investigation

SUBJECT:

Audit Draft Report - 201910009 - Undercover Travel Expenses
Were Generally Supported; However, Controls Could Be
Improved

Thank you for the opportunity to review and comment on the TIGTA Draft Report #201910009 – *Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved*, dated February 26, 2020. The IRS takes seriously our responsibility to ensure that all employee travel, including travel for undercover operations, are done so with strict professionalism and efficiencies. We are committed to adhering to all federal laws, regulations, and IRS policies, procedures and guidelines that are applicable to our Undercover Travel Program.

We agree with each of the recommendations made in the report and have attached a detailed response outlining the corrective actions that Criminal Investigation, along with SB/SE, will take to address the recommendations.

As we have shared with TIGTA, the environment of undercover operations is a unique one within IRS-CI. Its many nuances make it critical to have accountable procedures in place, and IRS-CI management is constantly focused on improving them. As such, the process to alter procedures in order to assuage the concerns addressed within the report are already underway.

Attached are our comments and responses to the recommendations. If you have any questions, please contact me at 202-317-3804, or Deputy Director Tom Fattorusso at 202-317-3934.

Attachments:



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

2

Attachment

Recommendation 1: The Chief, CI, should ensure management's approval is obtained when reserving hotel rooms exceeding the applicable temporary duty location rate and the use of luxury vehicles and require agents to include management's prior approval in their travel voucher documentation.

Corrective Actions:

IRS – Criminal Investigation agrees with the recommendation and has already started implementing this change during the approval process of future operations.

Implementation: *October 15, 2021*

Responsible Official:

Director, CI Operations Policy & Support

Corrective Action Monitoring Plan:

IRS will monitor this corrective action as part of our internal management system of controls.

Recommendation 2: The Chief, CI, should periodically assess undercover travel on a function-wide basis to identify potential areas for improved efficiency, to identify best practices to ensure agents' safety, and to ensure that the investigative imprest fund is only used for travel costs when needed to maintain the security of undercover operations.

Corrective Actions:

IRS – Criminal Investigation agrees with the recommendation. Discussions and procedures are being developed, with IRS-CI Finance, to move non-alias travel to the Concur system for authorizations and vouchers, if operationally feasible.

Implementation: *October 15, 2021*

Responsible Official:

Director, CI Operations Policy & Support

Corrective Action Monitoring Plan:

IRS will monitor this corrective action as part of our internal management system of controls.

Recommendation 3: The Commissioner, SB/SE Division, should revise the IRM and associated Memorandum of Understanding guiding the performance of quarterly imprest fund audits to specifically address how many times any single auditor should consecutively perform quarterly audits.

Corrective Actions:

We agree with this recommendation. We will revise the IRM and revise or rescind the associated Memorandum of Understanding guiding the performance of quarterly imprest fund audits to clarify no single auditor should consecutively perform quarterly audits.

Implementation: *October 15, 2021*

Responsible Official:

Commissioner, SB/SE Division



Undercover Travel Expenses Were Generally Supported; However, Controls Could Be Improved

Corrective Action Monitoring Plan:

IRS will monitor this corrective action as part of our internal management system of controls.