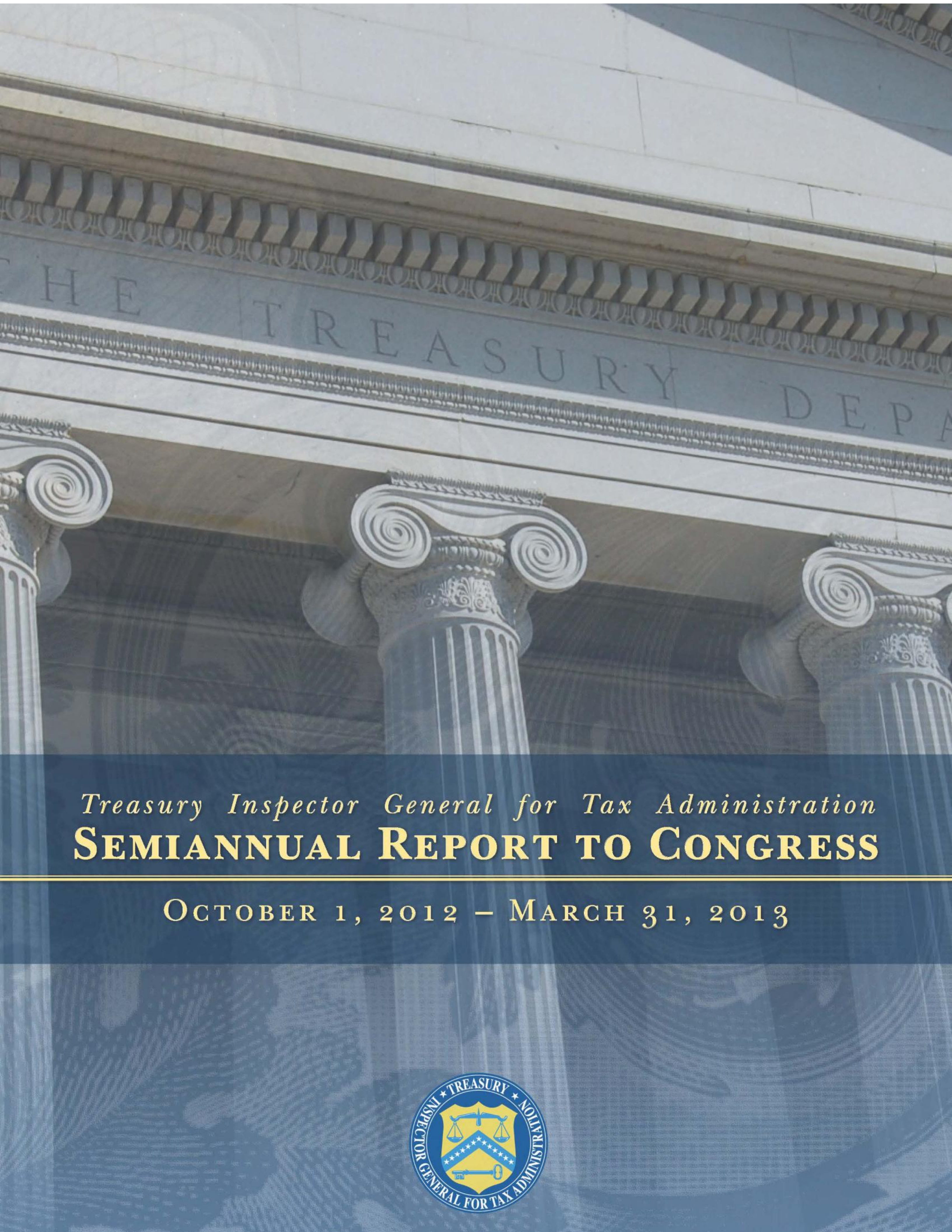

Treasury Inspector General for Tax Administration

SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2012 – MARCH 31, 2013

Treasury Inspector General for Tax Administration (TIGTA)

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.


TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY

Inspector General's Message to Congress

I am pleased to submit this Semiannual Report to Congress, highlighting the many accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) in promoting its mission to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of Federal tax administration. TIGTA's achievements for the reporting period of October 1, 2012 to March 31, 2013 are showcased through the many noteworthy audits, investigations, and inspections and evaluations summarized in this report.

Now more than ever, as our Nation wrestles with serious ongoing economic challenges, our oversight role in ensuring efficient, effective and proper management of our National Government's source of funding and revenue is critical. We will continue to ensure that the IRS diligently and efficiently performs its duty of collecting Federal tax revenue, while at the same time administering the growing number of programs with which it is charged. We at TIGTA are committed to ensuring that the IRS carries out its responsibilities to America's taxpayers as effectively and efficiently as possible and with the highest level of quality, service, and integrity.

At the same time, TIGTA has reassessed its own budget and resources and is currently making efforts to improve its cost efficiency as required by the sequester. TIGTA's senior executives and I have identified reductions in areas such as travel, training, contracts, awards, supplies, and overtime, among others. Additionally, a hiring freeze has been imposed. We are considering every effort to identify further cost savings and still achieve organizational goals without exceeding our budget allocation.

During this reporting period, TIGTA's combined audit and investigative efforts have recovered, protected, and identified monetary benefits totaling $1.18 billion. Over the past six months, our Office of Audit (OA) has completed 30 audits, and the Office of Investigations (OI) has closed 1,555 investigations.

Our audit work has uncovered inefficient use of resources at the IRS concerning aircard and BlackBerry® smartphone assignments, shortcomings in the IRS's compliance with the Improper Payments Elimination and Recovery Act, and imperfections in the way the IRS refers and recognizes indications of fraud. In addition, we have determined that the IRS could improve some of the systems it is developing to manage its implementation of the Affordable Care Act. Meanwhile, TIGTA's investigators have worked hard to discourage bribery, to combat identity theft committed by IRS employees, and to sharpen our own employees' response to threats posed by potentially dangerous taxpayers.

Congress's passage of the American Taxpayer Relief Act of 2012 has permanently allowed for greater information sharing between prison officials and the IRS, an important weapon to help combat the growing problem of tax fraud committed by prisoners. The need for greater scrutiny of tax returns filed by prisoners is an ongoing concern for TIGTA, as is seen in this report, so Congress's passage in February of this new law is a promising development.

In the last tax filing season, OA discovered approximately 19 million late filers along with many improper payments. TIGTA's audit reports found fraud to be a prominent issue that prevents the IRS from effectively collecting taxes. In addition, after examining IRS budget testimonies and reports, TIGTA concluded that there is substantial waste at the IRS. At no time in history have we been more committed to carrying out our important mission of serving the American people by working to ensure the integrity of Federal tax administration.

Sincerely,

J. Russell George

J. Russell George
Inspector General

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TIGTA's Profile

The Treasury Inspector General for Tax Administration (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, it functions independently from all other offices and bureaus within the Department.

TIGTA oversees 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 priorities of the Department of the Treasury.

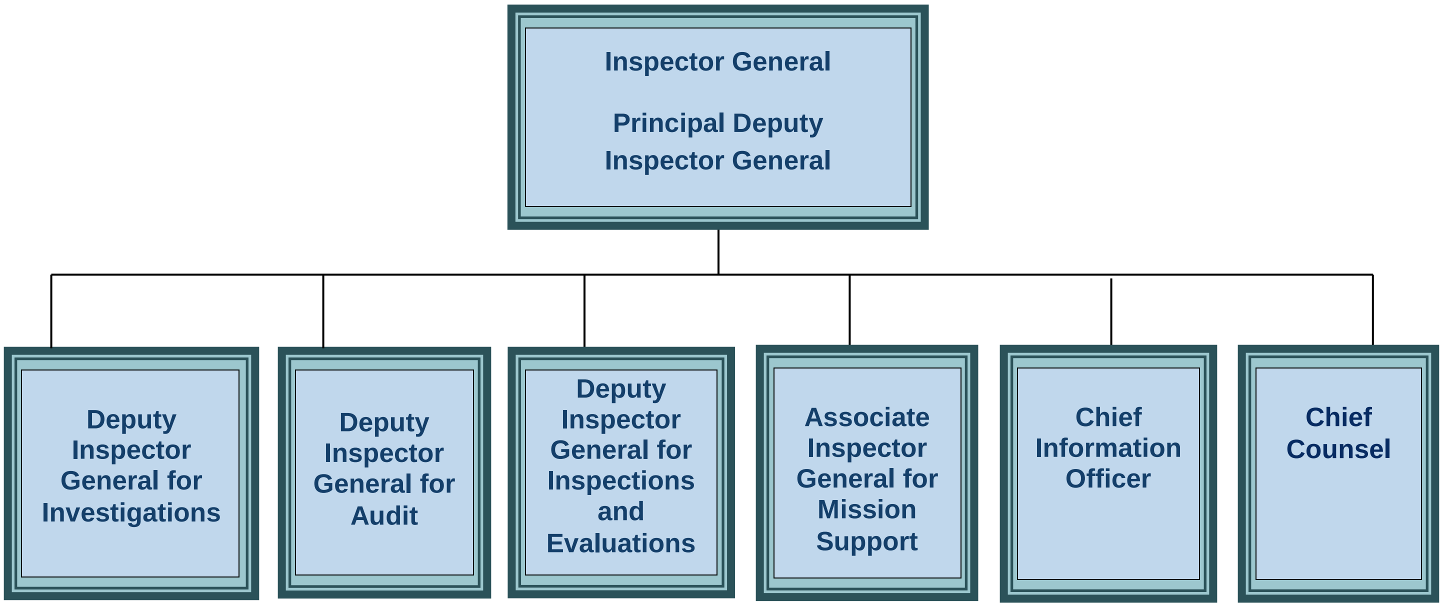
TIGTA's organizational structure is comprised of the Office of the Inspector General and six functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; the Office of Information Technology; and the Office of Chief Counsel. (See chart on page 8.)

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

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.

Organizational Structure



Authorities

TIGTA derives its authority from the Inspector General Act of 1978, as amended.[1] TIGTA has access to tax returns and return information in the performance of its tax administration responsibilities. TIGTA must also report potential Federal criminal violations directly to the U.S. Attorney General. 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)[2] 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.) § 7608(b)(2).

[1] 5 U.S.C. app. 3 (amended 2008).
[2] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., and 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

TIGTA's Highlights

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

Alaska Couple Sentenced for Conspiracy to Murder Federal Officials

On January 7, 2013, in the District of Alaska, Lonnie and Karen Vernon (the Vernons) were sentenced for conspiracy to kill a United States District Court Judge and an IRS Revenue Officer while engaged in the performance of their official duties. Lonnie Vernon's sentence also included conspiracy to possess unregistered silencers and destructive devices.[3]

Lonnie Vernon was sentenced to 310-months of imprisonment.[4] Karen Vernon was sentenced to a prison term of 144-months.[5] They were also ordered to pay assessments of $200 and $100, respectively.[6] Upon release from prison, both of the Vernons will be on supervised release for a term of five years.

According to court documents, the IRS recorded Federal tax liens against the Vernons in 2008, as a result of their failing to pay taxes to the IRS over the course of several years. In 2009, the United States Government filed a civil tax case against the Vernons alleging that they owed approximately $165,750 and seeking to foreclose its Federal tax liens against real property belonging to the Vernons. The United States sought to reduce the tax assessments to judgment, foreclose its liens, sell the property belonging to the Vernons, and apply the proceeds toward their tax liabilities.[7]

In court documents, Lonnie Vernon admitted that he travelled with another person to Anchorage, Alaska, where he sought to obtain a silencer and indicated that he was going to kill an IRS employee.[8] The Vernons admitted that they purchased and received a pistol equipped with a silencer and two hand grenades, not knowing at the time that the grenades were inert.[9]

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[3] D. Alaska Judgment (Karen Vernon) filed Jan. 8, 2013; D. Alaska Judgment (Lonnie Vernon) filed Jan. 8, 2013; D. Alaska First Superseding Indict. filed Mar. 17, 2011; and D. Alaska Third Superseding Indict. filed Jan. 20, 2012.
[4] D. Alaska Judgment (Lonnie Vernon) filed Jan. 8, 2013.
[5] D. Alaska Judgment (Karen Vernon) filed Jan. 8, 2013.
[6] D. Alaska Judgment (Karen Vernon) filed Jan. 8, 2013; D. Alaska Judgment (Lonnie Vernon) filed Jan. 8, 2013.
[7] D. Alaska Plea Agr. (Karen Vernon) filed Aug. 27, 2012; D. Alaska Plea Agr. (Lonnie Vernon) filed Aug. 27, 2012.
[8] D. Alaska Plea Agr. (Lonnie Vernon) filed Aug. 27, 2012.
[9] D. Alaska Plea Agr. (Karen Vernon) filed Aug. 27, 2012; D. Alaska Plea Agr. (Lonnie Vernon) filed Aug. 27, 2012.

Vihn Q. Tran Sentenced for Bribery of a Public Official

Vihn Q. Tran, owner and operator of St. Vincent Seafood Co., Inc., a shrimp and seafood distributor in Leeville, Louisiana,[10] was sentenced for bribery of a public official.[11]

In August 2007, an IRS agent delivered an appointment letter to Tran to schedule an IRS audit of Tran's business. At the conclusion of the meeting, Tran offered the IRS agent lunch; however, the agent declined. As the IRS agent was walking away, Tran told him, "…I will take good care of you." [12]

In a subsequent meeting between Tran and the IRS agent, Tran told the IRS agent that he would take care of him if the IRS agent took care of Tran. Tran then asked the IRS agent to make sure he owed little or no taxes and to make the audit paperwork "clear."[13] Tran offered $6,000 cash and other things of value to the IRS agent with the intent to influence an IRS audit being conducted of his seafood distribution business.[14] Tran made an initial bribe payment of $500 cash and 75 pounds of jumbo shrimp valued at approximately $400. Tran made additional cash payments to the agent totaling $5,500 during three meetings between June and August 2008.[15]

In April 2011, TIGTA Special Agents interviewed Tran concerning the bribery payments he made to the IRS agent. Tran acknowledged he had made bribe payments over the course of several meetings. Tran also admitted that he was aware that what he was doing was against the law.[16]

Tran pled guilty to bribery of a public official on January 5, 2012.[17] On March 7, 2013, in the Eastern District of Louisiana, Tran was sentenced to three-years' probation, to include six-months home detention with electronic monitoring, and he was ordered to pay a $100 assessment for bribery of a public official.[18]

[10] E.D. La., Factual Basis filed Jan. 5, 2012.
[11] E.D. La., Judgment filed Mar. 7, 2013.
[12] E.D. La., Factual Basis filed Jan. 5, 2012.
[13] *Id.*
[14] E.D. La., Bill of Information filed Nov. 29, 2011.
[15] E.D. La., Factual Basis filed Jan. 5, 2012.
[16] *Id.*
[17] E.D. La., Plea letter filed Jan. 5, 2012.
[18] E.D. La., Judgment filed Mar. 7, 2013.

Examples of High-Profile Reports by the Office of Audit:

Many Taxpayers Are Still Not Complying With Noncash Charitable Contribution Reporting Requirements

Taxpayers can generally deduct on their Federal tax return noncash charitable contributions made to qualifying organizations during the tax year. However, taxpayers who do not comply with the noncash contributions reporting requirements could be incorrectly reducing their tax liabilities and receiving tax refunds to which they are not entitled. Overall, TIGTA estimated that more than 273,000 taxpayers claimed approximately $3.8 billion in potentially erroneous noncash charitable contributions in Tax Year (TY) 2010, which resulted in an estimated $1.1 billion reduction in taxes.

IRS controls are still not sufficient to ensure that taxpayers are complying with noncash charitable-contribution reporting requirements. For example, statistical samples of TY 2010 tax returns that claimed more than $5,000 in noncash charitable contributions showed that approximately 60 percent of the taxpayers in the samples did not comply with the noncash charitable-contribution reporting requirements. These taxpayers claimed noncash contributions totaling approximately $201.6 million.

In addition, the IRS is still not effectively identifying taxpayers who are not complying with reporting requirements for donations of motor vehicles. For example, when TIGTA compared individual tax returns processed as of December 31, 2011, with tax returns filed by charities for the same period, it was discovered that approximately $77 million in deductions claimed on Forms 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, were not reported as received by charities on Form 1098-C. In addition, 1,708 taxpayers reported a total fair market value of their vehicles that exceeded sales proceeds by a combined total of $2.2 million.

As a result, TIGTA recommended that the IRS:

- Expand procedures to identify tax returns claiming noncash charitable contributions that do not have a Form 8283, *Noncash Charitable Contributions,* or qualified appraisal attached when required;
- Develop processes to systemically verify the accuracy of noncash charitable contributions;
- Revise the Form 8283 and related instructions; and
- Develop procedures to match Forms 1098-C submitted with individual tax returns to those filed by charitable organizations.

IRS management agreed with most of the recommendations. Although the IRS did not agree to develop procedures to match Forms 1098-C submitted with individual tax returns

to those filed by charitable organizations, it agreed to capture information to match Forms 1098-C.
Reference No. 2013-40-009

Significant Delays Hindered Efforts to Provide Continuous Monitoring of Security Settings on Computer Workstations

Effective continuous monitoring of computer workstations allows security issues to be identified and mitigated promptly, reducing the likelihood of a security breach. When IRS data and its network are not secure, taxpayer information becomes vulnerable to unauthorized disclosure and theft. Furthermore, security breaches can cause network disruptions and prevent the IRS from performing vital taxpayer services, such as processing tax returns, issuing refunds, and answering taxpayer inquiries. In addition, the IRS collects vast quantities of personal and financial information that can be targeted for identity theft.

The Treasury Enhanced Security Initiatives project, which includes the continuous monitoring tool for workstation security, will address several computer security weaknesses. During the development process, the IRS appropriately acquired the project's multiple software components, and the project team completed key documentation ensuring that critical issues were identified and addressed. However, the Treasury Enhanced Security Initiatives project has experienced several delays, and the project's oversight board did not take required actions to manage the delays or the associated costs. The IRS was originally scheduled to deploy the security tools in December 2010, but now plans to complete the deployment in May 2013.

TIGTA recommended that the IRS:

- Review total actual life cycle costs for projects at least quarterly, and review variances between actual costs and the originally proposed estimated costs;
- Manage costs by considering the postponement of projects incurring long-term delays; and
- Escalate ongoing project delays to the higher level Security Services and Privacy Executive Steering Committee.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.
Reference No. 2013-20-016

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 IRS programs and operations primarily address statutorily mandated reviews and high-risk challenges that the IRS faces.

The IRS's implementation of TIGTA 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 Emphasis Areas for October 2012 Through March 2013

- Security for Taxpayer Data and Employees
- Tax Compliance Initiatives
- Implementing the Affordable Care Act and Other Tax Law Changes
- Fraudulent Claims and Improper Payments
- Human Capital
- Achieving Program Efficiencies and Cost Savings

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

Security for Taxpayer Data and Employees

The IRS faces the daunting task of securing its computer systems against the growing threat of cyberattacks. Effective information systems security becomes essential to ensure that data are protected against inadvertent or deliberate misuse, improper disclosure, or destruction, and that computer operations supporting tax administration are secured against disruption or compromise.

Improvements Are Needed to Ensure the Effectiveness of the Privacy Impact Assessment Process

The Privacy Impact Assessment (PIA) process examines the risks and ramifications of using information technology to collect, maintain, and disseminate information in identifiable form about members of the public and agency employees. The IRS recognizes that privacy protection is both a personal and fundamental right of all taxpayers and employees. However, it has not established effective processes to ensure that PIAs are completed timely, updated, and made publicly available, and that privacy policies are posted on public websites for all required systems and collections of information.

In December 2011, the IRS implemented the Privacy Impact Assessment Management System (PIAMS) to automate the process of completing PIAs in a more efficient and less time-consuming way. However, several key processes were not effectively automated. For example, privacy analysts must view numerous individual screens rather than scrolling through the information seamlessly; responses in the system are not grouped by topic or subject matter; and the automated e-mail notification function is not consistent.

TIGTA made several recommendations to the IRS that included the following:

- Establish an annual reconciliation of PIA inventories with information systems and collections of information in the current production environment;
- Document and publicize the customer survey PIA completion process;
- Establish a PIA inventory control process to identify and review systems every three years as required;
- Automate the notification process to alert responsible officials when new or existing PIAs are required to be posted to the IRS public website;
- Ensure that current and complete standard operating procedures are established and maintained for all PIA processes; and
- Ensure that the IRS officials who develop third-party website information are directed to submit website proposal details and approval requests to the IRS New Media Governance Council, and coordinate with website owners to post a link to the IRS privacy policy on these third-party websites.

The IRS agreed with most of these recommendations, but indicated that it had already implemented two recommendations by overhauling the PIAMS template and involving privacy analysts and other users in requirements-gathering and testing of PIAMS functionality. TIGTA did not see evidence of these corrective actions and continues to believe that the PIAMS version, at the time of TIGTA's review, could be improved to effectively automate the key privacy impact assessment processes.
Reference No. 2013-20-023

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[19] remain the focus of many IRS initiatives. Although the IRS reported that the Tax Gap is caused by both unintentional taxpayer errors and willful tax evasion or cheating, it does not have sufficient data to distinguish the amounts attributable to each. The IRS also reported that a meaningful improvement in the voluntary compliance rate requires a long-term, focused effort involving taxpayer service, modernization, and enforcement.

Actions Can Be Taken to Reinforce the Importance of Recognizing and Investigating Fraud Indicators During Office Audits

Penalties, such as for civil fraud, are designed to promote voluntary compliance by imposing an economic cost on taxpayers who choose not to comply with the tax law. Because indicators of fraud are not always recognized and properly investigated, the IRS may be missing opportunities to further promote voluntary compliance and enhance revenue for the Department of the Treasury.

TIGTA reviewed a statistical sample of 100 office audits, closed between October 2009 and September 2010, that involved high-income and sole proprietor taxpayers who agreed that they owed additional taxes of at least $10,000. TIGTA identified 26 audits with fraud indicators that were not recognized and investigated in accordance with some key IRS procedures and guidelines. When the sample results were projected to the population of 3,674 closed office audits meeting the above characteristics, TIGTA estimated that fraud indicators were not recognized and investigated in approximately 939 office audits during Fiscal Year (FY) 2010. TIGTA estimated that taxpayers may have avoided additional assessments totaling approximately $5.8 million in civil fraud penalties.

TIGTA recommended that the IRS:

- Standardize the process for office audit examiners' documentation of fraud consideration by developing and implementing a specific job aid that requires examiners to acknowledge which indicators, if any, were considered during the audit; and
- Develop additional criteria and guidance for when a discussion should be held between the examiner and first-line manager about the potential fraudulent activity of a taxpayer, to cover instances other than omissions of income.

IRS management partially agreed with both recommendations. With respect to the first recommendation, the IRS plans to review existing guidelines and make revisions to

[19] 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.

standardize the process for documenting the consideration of fraud. TIGTA believes that this planned corrective action is responsive to the recommendation.

With respect to the second recommendation, the IRS plans to provide a guidance memorandum to emphasize when a discussion should be held between the examiner and first-line manager about potential fraudulent activity. However, it did not agree to provide additional criteria related to overstated deductions. As such, it is unlikely that the corrective action will be effective. Overstated deductions can be just as egregious as omissions of income and result in the same tax loss to the Government. Moreover, the IRS agreed that the recommendations have the potential to increase revenue by $29 million over five years. Therefore, TIGTA continues to believe that the IRS should expand the requirement for examiners and first-line managers to discuss potential fraudulent behavior beyond unreported income.
Reference No. 2013-30-020

Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved

When individuals want to report possible instances of Federal tax fraud by a taxpayer, the IRS instructs them to complete and mail Form 3949-A, *Information Referral*, or to provide this information via a letter. During FYs 2010 through 2012, the IRS's Small Business/Self-Employed (SB/SE) and Wage & Investment (W&I) Divisions received and screened 274,976 Forms 3949-A. During that same time period, examinations initiated from Form 3949-A referrals resulted in more than $66.5 million in tax assessments.

TIGTA determined that both the SB/SE and W&I Division screeners improperly screened Forms 3949-A. While improvements to the processes and better communication with the IRS's Accounts Management function will reduce the number of referrals the divisions receive, other issues affect the screeners' ability to research and identify referrals worthy of examination. Neither division has a routine review process to evaluate screened referrals not selected for examination. Routine checks of screened work would identify potential areas for improvement. In addition, the SB/SE Division does not have specific guidelines for screeners. More detailed guidelines would allow SB/SE Division screeners to be more consistent when evaluating referrals.

The SB/SE and W&I Divisions spent approximately $211,041 to screen the 102,465 Forms 3949-A received for FY 2012 and assessed more than $29 million on taxpayers. The divisions should reevaluate the Form 3949-A program's effectiveness once corrective actions are complete, and determine how much of their limited resources should be devoted to the program. Increased efficiency may make it more cost-efficient for the divisions to place a higher priority on these referrals.

TIGTA recommended that the IRS:

- Ensure that it periodically communicates its referral needs to the Accounts Management function;
- Conduct routine reviews of screened referrals;
- Develop detailed SB/SE Division standard screening guidelines;
- Implement procedures to include information about each misrouted referral sent to another function or returned to the Accounts Management function; and
- Assess the value of the Form 3949-A program once the IRS implements the corrective actions resulting from a previous TIGTA report.[20]

IRS management agreed with the recommendations and stated that it plans to take corrective actions.
Reference No. 2013-40-022

The Compliance Assurance Process Has Received Favorable Feedback, but Additional Analysis of Its Costs and Benefits Is Needed

Unlike traditional audits, where tax issues are often resolved long after the tax return is filed, taxpayers volunteer to participate in the Compliance Assurance Process (CAP) and strive to resolve potential tax issues before a tax return is filed. The CAP, according to the IRS's Large Business and International (LB&I) Division statistics, reduces the length of the audit process for both the IRS and large businesses. For taxpayers, achieving tax return certainty can significantly enhance public and investor confidence. While this and other CAP benefits are important, it is equally important for the LB&I Division to ensure that devoting enforcement resources to the CAP does not diminish the Division's ability to provide audit coverage of large businesses that do not comply with the tax laws and choose not to volunteer for the CAP.

The CAP is administered in accordance with IRS policies and procedures, and the pilot program followed many key best practices in the design and testing of the process. However, although the CAP pilot program ran for six calendar years and the permanent program is in its second calendar year of operation, the LB&I Division has yet to develop and implement a plan to thoroughly evaluate CAP data.

TIGTA's analysis found that CAP audits are consuming substantially more staff hours than those under the traditional audit process. This makes the hourly revenue rate for the CAP approximately a third of the hourly rate examiners generate from traditional audits: $2,939 versus $8,448, respectively. TIGTA also found that the CAP has not yet been reviewed as a potential new user fee source.

[20] TIGTA, Ref. No. 2012-40-106, *The Process for Individuals to Report Suspected Tax Law Violations Is Not Efficient or Effective* p. 3 (Sept. 2012).

TIGTA recommended that the IRS:

- Develop and implement an evaluation plan to verify that the CAP is delivering sufficient benefits in relation to the costs being incurred; and
- Ensure that the CAP is assessed as a potential new user fee source once the IRS-wide user fee guidelines are revised and implemented.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.
Reference No. 2013-30-021

Interim Results of the 2013 Filing Season

The filing season, defined as the period from January 1 through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures.

The IRS delayed the start of the filing season from January 22, 2013 to January 30, 2013 as a result of the enactment of the American Taxpayer Relief Act of 2012.[21] Most taxpayers were able to file their tax return starting on January 30, 2013. However, some taxpayers had to wait to file their tax return until early March 2013. The IRS began accepting all individual tax returns on March 4, 2013. As of March 9, 2013, the IRS had received more than 65.1 million tax returns. More than 59.5 million (91 percent) were filed electronically, and approximately 5.6 million (9 percent) were filed on paper. The IRS has issued more than 53.4 million refunds totaling in excess of $154 billion.

The IRS is continuing to expand its efforts to detect tax refund fraud. As of March 9, 2013, the IRS reported that it had identified 220,821 tax returns with $1.86 billion claimed in fraudulent refunds, and had prevented the issuance of $1.79 billion (96.2 percent) of those fraudulent refunds. In addition, the IRS had identified and confirmed 85,385 fraudulent tax returns involving identity theft, and had identified another 87,817 prisoner tax returns for screening.

Taxpayers' use of the split refund option to deposit a refund directly into multiple bank accounts continues to be frequently used. However, TIGTA found that some taxpayers and tax return preparers may be misusing this option. TIGTA also found that some paid tax return preparers continue to be noncompliant with Earned Income Tax Credit due-diligence requirements. In addition, the IRS continues to issue potentially erroneous education credits for individuals who are not of a traditional age to be pursuing a four-year degree or vocational program.

During FY 2013, the IRS plans to assist six million taxpayers through face-to-face contact at Taxpayer Assistance Centers, which will be 11.8 percent fewer taxpayers than were assisted during FY 2012. As of March 9, 2013, approximately 56.5 million taxpayers had

[21] Pub. L. No. 112-240, 126 Stat. 2313 (2013).

contacted the IRS by calling the various Customer Account Services function's toll-free telephone assistance lines. The IRS is also continuing to expand its online and social media presence, and now has a mobile application (IRS2Go); YouTube channels; as well as Twitter, Tumblr, and Facebook accounts.
Reference No. 2013-40-035

Implementing the Affordable Care Act and Other Tax Law Changes

Each filing season tests the IRS's ability to implement tax law changes made by Congress 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 existing tax forms, instructions, and publications;
- Revise internal operating procedures; and
- Reprogram major computer systems used for processing tax returns.

The Affordable Care Act[22] (ACA) contains an extensive array of tax law changes that will present a continuing source of challenges for the IRS in the coming years. While the Department of Health and Human Services will have the lead role in the policy provisions of the ACA, the IRS will administer the law's numerous tax provisions. The IRS estimates that at least 42 provisions will either add to or amend the tax code, and that at least eight provisions will require the IRS to build new processes that do not exist within the current system of tax administration.

Affordable Care Act -- The Income and Family Size Verification Project: Improvements Could Strengthen the IRS's New Systems Development Process

The Income and Family Size Verification (IFSV) Project is a core aspect of the ACA Program and will support open enrollment beginning in October 2013. The IFSV Project is important to the functionality and success of the ACA Program because it is responsible for developing a solution that will verify income and family size, based on tax return data, for the purpose of determining an individual's eligibility for the advanced premium tax credit for health insurance.

By the end of August 2012, the IFSV Project had completed all six systems development components, each delivering a piece of approved functionality. While cost data specific to the IFSV Project were not readily available during the audit, the IRS is generally managing systems development risk areas with the implementation of the new Iterative Path[23] within the Enterprise Life Cycle.[24] However, process improvements are needed to

[22] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.
[23] The Iterative Path is an adaptive development approach in which projects start with initial planning and end with deployment, with repeated cycles of requirement discovery, development, and testing in between.

better ensure that: (1) the IFSV Project team adheres to configuration management guidelines when base-lined requirements are changed; and (2) the ACA Program Configuration Control Board emergency meeting processes are effectively communicated. Further, an integrated suite of automated tools could improve requirements management and testing for the IFSV Project.

TIGTA made three recommendations to the IRS, and IRS management stated that it plans to take corrective actions for two of these recommendations.

The IRS disagreed with the third recommendation to implement a standard suite of integrated, automated tools for the ACA Program and ACA projects. Notwithstanding the IRS's response, TIGTA believes that an action plan to address this recommendation would permit the IRS to better ensure long-term success for the IFSV Project along with the many other information technology components and systems supporting new functionality and transactions required to address its mission-critical capabilities under the ACA.

Lastly, the IRS disagreed with the statement in the report that cost data were not readily available during the audit. TIGTA maintains that cost information was not readily available because it took the IRS 28 business days to provide basic budget and cost data. **Reference No. 2013-23-034**

Fraudulent Claims and Improper Payments

An improper payment includes any payment that should not have been made or that was made in an incorrect amount (both overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Erroneous and improper payments issued by the IRS generally involve improperly paid refunds, tax return filing fraud, or improper payments to vendors or contractors.

Further Efforts Are Needed to Ensure the IRS Prisoner File Is Accurate and Complete

The number of tax returns filed by prisoners and identified by the IRS as fraudulent has increased from more than 18,000 tax returns in Calendar Year 2004 to more than 91,000 tax returns in Calendar Year 2010. During that time, the refunds claimed on these returns increased from $68 million to $757 million. The accuracy and reliability of the Prisoner File[25] directly affects the IRS's ability to stop fraudulent refunds.

Despite the IRS's increased efforts to improve the accuracy of the Prisoner File, some prisoner information contained in the file is inaccurate. Moreover, the file contains

[24] The IRS's software development life cycle for information technology projects. It provides the critical framework/foundation for IRS information technology projects. The Enterprise Life Cycle facilitates project success through critical step-by-step discipline and structure.
[25] The Prisoner File is a list of prisoners from the Bureau of Prisons and State Departments of Corrections.

incomplete records, and not all facilities that house prisoners reported prisoners. As a result, controls used to ensure that the IRS identifies fraudulent refunds on tax returns prepared by prisoners are not fully effective.

The majority of the inaccuracies identified were due to misinformation. Of the 2.8 million records on the 2012 Prisoner File, 2.3 million (82 percent) matched the information on the Social Security Administration's (SSA) records. More than 260,000 (nine percent) records had information missing, and 240,000 (nine percent) records did not match SSA records. Most of these issues are beyond the control of the IRS. Nonetheless, the IRS can take steps to improve its validation and verification processes. TIGTA recommended that the IRS ensure the validation and verification of future IRS Prisoner Files. [26]

IRS management plans to continue to assess the effectiveness of the validation activities performed on the Prisoner File. IRS management also stated that new programming and procedures will be deployed for Calendar Year 2013. However, TIGTA believes that the new programming and procedures are unrelated to the Prisoner File validation process and will not ensure the reliability and accuracy of the Prisoner File.
Reference No. 2013-40-011

Improper Payment Elimination and Recovery Act Risk Assessments of Revenue Programs Are Unreliable

Improper payments cost taxpayers billions of dollars annually across Federal programs. The IRS estimates that it paid $15.2 billion in improper Earned Income Tax Credit (EITC) payments in FY 2011. Ineffective risk assessment processes can affect Governmentwide actions to protect taxpayer dollars from waste, fraud, and abuse.

The IRS used the Department of the Treasury's Improper Payment Risk Assessment Questionnaire (the Questionnaire) and guidance to complete the FY 2011 risk assessment for each designated administrative and revenue program fund. TIGTA determined that the risk assessment process adequately reflects the risk of improper payments in the IRS's administrative program funds.

However, the process does not provide a reliable assessment of the risk of improper payments in the IRS's revenue program funds. The IRS's review process for revenue program fund risk assessments is informal and did not always adhere to required guidelines for performing the assessment. The design of the Questionnaire does not provide an adequate assessment of the risk associated with tax refunds. For example, not all of the questions apply to tax refund payments. Depending on the response to

[26] At the time the audit report was issued, the IRS did not have the authority to disclose to prisons information related to prisoner-filed fraudulent tax returns or prisoner identity issues. The audit report stated that this limited the ability of prison officials to curtail prisoners' continued abuse of the tax system, and TIGTA recommended that legislation was needed to permanently authorize the IRS to share data with prisons. Subsequently, Congress passed the American Taxpayer Relief Act of 2012, Pub. L. No. 112-240, 126 Stat. 2313 (2013), which permits the IRS to share return and return information with certain prison officials under I.R.C. § 6013.

these questions, the program's risk score can be affected. In addition, questions pertaining to other areas of potential risk within tax administration are not included in the Questionnaire.

Other issues, such as insufficient verification of identity or income, can pose a significant risk for improper payments. Prior TIGTA reports indicated that this risk could be significant. As a result of identity theft, the IRS may have paid $5.2 billion in potentially fraudulent tax refunds on 1.5 million tax returns in Tax Year 2010. TIGTA also previously found that the verification process for Individual Taxpayer Identification Number applications was substantially deficient. More than 481,500 tax returns associated with these applications had claims for the Additional Child Tax Credit totaling more than $916 million.

Moreover, TIGTA's analysis of the information that the IRS provided to the Department of the Treasury for inclusion in the Department's financial report showed that the IRS is not in compliance with all Improper Payments Elimination and Recovery Act of 2010[27] (IPERA) requirements. Specifically, the IRS has not established annual EITC improper-payment reduction targets and it has not reported an improper payment rate of less than 10 percent. This is the second consecutive year that the IRS is not in compliance with the IPERA.

TIGTA recommended that the IRS:

- Work with the Department of the Treasury to better identify the IRS programs to be included in the risk assessments for improper payments, and refine the Questionnaire to ensure that all questions are applicable to tax administration and more accurately reflect the risks associated with tax refund payments;
- Develop a formal process for assigning responsibility for the completion of the risk assessments; and
- Develop a process to ensure that the Department of the Treasury guidance is followed.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.
Reference No. 2013-40-015 and 2013-40-024

Human Capital

At a time when agencies are preparing for increased retirements and taking on such challenges as implementing the numerous health care tax provisions, the recruitment and retention of employees plays a key role in maintaining a quality workforce. The IRS is faced with the challenge of having the right people in the right place at the right time while it replaces the existing talent caused by the large number of retirements expected over

[27] Pub. L. 111-204, 124 Stat. 2224.

the next several years. This situation is made more difficult by many complex internal factors, such as greater expertise required for the job, and external factors, such as competition with other Federal agencies and with private industry for the same human resources. Moreover, budget constraints, legislative changes, and economic shifts can create unforeseen challenges for the IRS in addressing its long-term human capital issues.

New Employees Are Being Hired More Quickly; However, Improvements Are Needed to Correct Some Hiring Monitoring Data

Hiring quality employees quickly is important to the IRS, as it hires a large number of employees each year. The IRS's divisions and its Human Capital Office have taken action to reduce hiring timelines. However, they will need to continue to focus on keeping hiring timelines low and making additional improvements. If not, as the economy improves and the IRS competes more with the private sector, the IRS may encounter difficulties attracting highly qualified candidates. This could impact the IRS's ability to meet its mission of providing America's taxpayers top quality service.

The IRS's divisions and its Human Capital Office have taken action to monitor and improve the efficiency of hiring new employees. Most improvements have resulted from automating time-consuming manual steps in the hiring process and monitoring in-process hiring. For example, in a little more than two years the Information Technology organization has cut the time it takes to hire new employees by more than half. As a result, it is close to meeting the 80-calendar-day hiring goal of the Office of Personnel Management (OPM).

Similarly, actions taken by the IRS's W&I Division have reduced hiring timelines and brought it close to meeting the OPM's hiring goal. The IRS's SB/SE Division uses a hiring process that is based on bringing large groups of employees on board at the same time for training and orientation purposes. While this may result in efficient training and orientation programs for enforcement personnel, it can take up to 200 calendar days to hire employees, which results in failing to meet the hiring goal.

In addition, TIGTA determined that data for monitoring the time taken to hire new employees was not always correct. TIGTA identified that IRS's Human Capital Office report data was incorrect for nine (38 percent) of the 24 Information Technology organization hires in TIGTA's sample. The incorrect data occurred because an incorrect certificate (a list of applicants that is certified by the IRS's Human Capital Office) was selected for manually rated and ranked applications. Finally, the IRS's Human Capital Office did not correctly enter the date that the rating and ranking package was returned from the hiring manager. As a result, IRS divisions cannot rely on the reports to monitor in-process hiring or to identify when hiring delays occur.

Despite progress, continued focus by IRS executive management on human capital is needed due to key internal and external challenges. For example, in the last two fiscal years, the IRS workforce has decreased by about 10,000 full-time equivalents, and many of its most experienced leaders and employees will be eligible to retire in the next five years. At the same time, significant tax code changes are being made, and the IRS needs to make improvements to stop the billions of dollars in tax refunds resulting from identity theft and erroneous claims for tax credits.

TIGTA recommended that the IRS:

- Deactivate certificates that are not used;
- Provide guidance to employment offices for selecting the correct certificates; and
- Correct computer report-writing programming to ensure that correct dates are used in calculating hiring timelines.

TIGTA has already reported that the IRS needs to develop an agencywide strategy for integrating new employees into the workforce, because some best practices that would help new employees become more productive were not fully implemented. For instance, contrary to IRS policy, one-quarter of the new employees TIGTA contacted were not assigned a coach or mentor when they arrived. While difficult, successfully addressing human capital challenges will help the IRS to do more with less and effectively meet its tax administration responsibilities.

IRS management agreed with the recommendations and implemented or plans to implement corrective actions.
Reference No. 2013-10-007 and 2013-10-017

Achieving Program Efficiencies and Cost Savings

Given the current economic environment and the increased focus by the Administration, Congress, and the American people on Government accountability and efficient use of resources, the American people must be able to trust that their Government is taking action to stop wasteful practices and to ensure that every tax dollar is spent wisely. 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.

Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program

Having measures that provide ongoing performance information to management and stakeholders is critical to sound decision making in any organization. In the IRS, such information assists IRS management and Congress in making decisions about how to fund and allocate resources to collect the estimated $360 billion of taxes from taxpayers who owe but have not paid. This, in turn, helps reduce the risk of creating an unfair burden on the vast majority of taxpayers who pay their taxes in full and on time.

TIGTA found that the Collection Program's performance measures were captured accurately and noted several favorable trends among the measures reported in its operational performance reports. For example, the total dollars collected in FY 2011 were 20 percent higher than the amount collected in FY 2009, even though there were fewer revenue officers on staff. Revenue officers also completed investigations quicker and made trust fund penalty determinations faster in FY 2011 compared to FY 2009.

TIGTA also identified three ways that the Collection Program could enhance how it monitors, measures, and reports its accomplishments. First, the IRS could integrate its balanced measures to include customer and employee satisfaction and business results into all performance reports. This would help hold managers and staff across Collection Program areas accountable for, and focused on, balancing service to taxpayers with enforcing the tax laws, as articulated in the IRS mission statement and its two strategic goals and one strategic foundation. Second, the IRS could link the Collection Program's 68 operational-level performance measures to a specific operational objective and to one or more of the IRS's strategic goals. Such links can show Collection Program managers how their day-to-day activities contribute to attaining the Collection Program's operational objectives and the broader IRS strategic goals. Finally, the IRS could develop and implement meaningful performance targets for each of the operational-level measures. If objectively established, the targets would help Collection Program managers avoid any perception of bias or manipulation in the monitoring and reporting of progress in meeting their pre-established objectives.

TIGTA recommended that the IRS:

- Ensure that customer satisfaction and employee satisfaction measures are included in all performance reports; and
- Establish a performance measure and target for each operational objective.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.
Reference No. 2013-30-028

Inadequate Aircard and BlackBerry® Smartphone Assignment and Monitoring Processes Result in Millions of Dollars in Unnecessary Access Fees

In FY 2011, the IRS had approximately 35,000 active aircards and more than 4,400 BlackBerry® smartphones assigned to employees, providing them with mobile Internet and e-mail access. TIGTA found that cost savings can be achieved if the IRS ensures that only those employees with a valid business need are assigned an aircard and/or BlackBerry® smartphone, and if the IRS conducts more effective oversight and monitoring of these devices. Improved policies and procedures can result in savings of $5.9 million over five years, which would help to support the President's November 2011 Executive Order to cut waste in Federal Government spending and identify opportunities to promote efficient and effective spending.[28]

[28] Exec. Order No. 13,589, 3 C.F.R. 282 (2011); 3 CFR, 2011 Comp., p. 282.

Processes for assigning and monitoring the use of aircards and BlackBerry® smartphones are not adequate to ensure that employees have a business need for the devices. Assignment of these devices is generally based on job series classifications without adequately ensuring that a business need exists.

In addition, the IRS paid approximately $1.1 million during FY 2011 for 13,878 aircards and 754 BlackBerry® smartphones that were not used for periods of between three months to one year. For example, TIGTA identified 45 aircards and 68 BlackBerry® smartphones that were not used at all for the entire 12 months of the fiscal year.

Finally, 2,560 employees may have been assigned an aircard or BlackBerry® smartphone without required management approval. These devices cost the IRS more than $950,000 in FY 2011, or about $4.8 million over five years.

TIGTA recommended that the IRS:

- Develop processes to periodically evaluate which job series are profiled for aircards and BlackBerry® smartphones and ensure that managerial approval of devices is based on business need;
- Establish a pooling policy for aircards;
- Review its inventory records to identify devices shown as assigned to employees without proper management approval;
- Develop a formalized process to identify BlackBerry® smartphones with no usage; and
- Identify whether BlackBerry® smartphones with no data use could be replaced with a lower-costing cellular telephone.

IRS management agreed with some of the recommendations and stated that it plans to take corrective actions. It disagreed with the other recommendations, citing previously existing procedures. Based on the large number of unapproved and unused devices identified during the audit, TIGTA believes that the IRS should take action to enhance its existing controls.
Reference No. 2013-10-010

Protect the Integrity of Tax Administration

TIGTA is statutorily charged with protecting the integrity of Federal tax administration. TIGTA accomplishes its mission, in part, through the investigative case work conducted by the Office of Investigations (OI). Through its investigative programs, OI protects the integrity of the IRS by investigating IRS employee misconduct and criminal activity, threats to employees and facilities, and attempts to impede or otherwise interfere with the IRS's ability to collect taxes.

Physical violence, harassment, and intimidation of IRS employees pose significant challenges to the implementation of a fair and effective system of tax administration. TIGTA places the highest priority on its statutory responsibility to safeguard approximately 92,500 IRS employees located in over 670 facilities nationwide. OI is committed to ensuring the safety of IRS employees and the security of IRS facilities.

The Performance Model

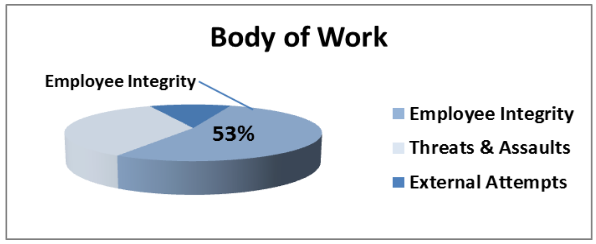
OI's investigative resources are allocated based upon a performance model that focuses on three primary areas of investigation: 1) employee integrity; 2) employee and infrastructure security; and 3) external attempts to corrupt tax administration.

The performance model provides reliable statistical data which assist in mission-critical decisions regarding staffing, budgeting, and training. OI's performance model measures the ratio of those investigations that have the greatest impact on IRS operations or the protection of Federal tax administration to the total number of investigations conducted. These performance measures guide OI's activities and help demonstrate to its external stakeholders the value of its accomplishments.

Employee Integrity

IRS employee misconduct, real or perceived, erodes public trust and undermines the IRS's ability to collect taxes and deliver taxpayer services. This misconduct manifests itself in a variety of ways, including theft, fraud, extortion, false statements, taxpayer abuses, and unauthorized access to and disclosure of tax return information. IRS employees are entrusted with the sensitive personal and financial information belonging to United States taxpayers. Because the Federal tax system is based on voluntary compliance, it is essential that information given to the IRS for tax administration purposes is protected.

During this reporting period, employee misconduct investigations accounted for 53 percent of OI's work. The following cases are representative of OI's efforts to ensure employee integrity during this six-month reporting period.



James Lee Dardy Sentenced for Conspiracy to Steal Tax Remittance Checks

According to court documents, between approximately June 2011 and October 2011, James Lee Dardy worked as a mailroom clerk in an IRS branch office located in Miami, Florida. In approximately June 2011, Dardy and a co-conspirator agreed to steal checks that had been mailed to the IRS branch office where Dardy worked and they agreed to share the stolen money. Dardy stole checks made payable to the IRS from the IRS mailroom and provided them to his co-conspirator.[29]

The co-conspirator altered the name on the payee line of the tax remittance checks. He, or an individual acting at his direction, deposited the stolen checks into a bank account belonging to another co-conspirator. The illicit proceeds were dispersed to the co-conspirators by wire transfer and postal money order.[30]

On January 30, 2013, in the Southern District of Florida, Dardy was sentenced to five-years probation, ordered to perform 100-hours of community service and ordered to participate in the Home Detention Electronic Monitoring Program for one year. Dardy was also ordered to pay $21,152 restitution.[31]

Antonio Willabus Pleads Guilty to False Statements

On January 18, 2013, in the District of Maryland, Antonio Willabus pled guilty to making a false statement.[32] According to court documents, Willabus was employed by the IRS and worked a compressed week schedule. In addition, he was placed on a "flexiplace" work schedule that permitted him to work at his home on designated days. Willabus entered his own time, attendance, and leave data into the IRS's database. His supervisor would then validate the time and attendance based on approved leave requests.[33] On or about January 13, 2012, Willabus falsely certified in his database entry that he had worked designated hours when in fact he had not worked the hours and had taken time off without authorization. As a result, Willabus received approximately $28,692 in salary for hours that he did not work.[34]

[29] S.D. Fla. Stipulated Factual Proffer filed Nov. 5, 2012.
[30] S.D. Fla. Indict. filed Sept. 25, 2012.
[31] S.D. Fla. Judgment filed Feb. 1, 2013.
[32] D. Md. Plea Agreement filed Jan. 18, 2013; D. Md. Criminal Docket entry dated Jan. 18, 2013.
[33] D. Md. Indict. filed July 16, 2012.
[34] *Id.*

Cynthia Lewis Sentenced for Unauthorized Disclosure of Tax Return Information

On February 11, 2013, in the Eastern District of California, Cynthia Lewis was sentenced to 24-months probation for unauthorized disclosure of tax return information by a Federal employee.[35] According to court documents, Lewis, an IRS employee, willfully disclosed tax return or return information to other persons without authorization to do so. The unauthorized disclosures began in about October 2010, and continued to about March 2011.[36] On August 16, 2012, Lewis was indicted by a grand jury for the violation,[37] to which she subsequently pled guilty on November 19, 2012.[38]

Terri Fiorini Sentenced for Unauthorized Inspection of Tax Return Information

On November 29, 2012, in the Eastern District of California, Terri Fiorini was sentenced to one-year unsupervised probation for unauthorized inspection of tax return information. She was also ordered to pay a $1,000 fine.[39] According to court documents, Fiorini knowingly and willfully inspected Federal tax return information without authorization while working as an employee of the IRS by accessing the electronically stored tax return information of six individuals. The unauthorized inspection occurred between about May 2010 and January 2012.[40]

Dora Broadnax Sentenced for Unauthorized Inspection of Tax Returns

On October 9, 2012, in the Eastern District of Virginia, Dora Broadnax was sentenced to one-year supervised probation for unauthorized inspection of tax returns.[41] According to facts admitted in court documents, Broadnax was hired by the IRS as an Individual Taxpayer Advisory Specialist in 1999, and held that position at the time she committed the unauthorized inspection of tax returns. As an Individual Taxpayer Advisory Specialist, Broadnax had access to tax return and return information of United States taxpayers through computers for business purposes. In the months of January and June 2011, Broadnax willfully inspected tax returns and return information of taxpayers without authorization and for purposes unrelated to her official duties.[42]

Employee and Infrastructure Security

Tax revenue is critical to our Nation's infrastructure. Threats and assaults directed at IRS employees, facilities, data, and computer systems impede the effective administration of the Federal tax system. Contact with the IRS can be stressful and taxpayers may become confrontational or even violent. Taxpayers have made threats against IRS employees and some have even physically assaulted employees. TIGTA has statutory

[35] E.D. Cal. Judgment filed Feb. 12, 2013.
[36] E.D. Cal. Memorandum of Plea Agreement filed Oct. 31, 2012; and E.D. Cal. Indict. filed Aug. 16, 2012.
[37] E.D. Cal. Indict. filed Aug. 16, 2012.
[38] E.D. Ca. Crim. Docket filed Nov. 27, 2012.
[39] E.D. Cal. Judgment filed Dec. 3, 2012.
[40] E.D. Cal. Memorandum of Plea Agreement filed Sept. 28, 2012.
[41] E.D. Va. Judgment filed October 9, 2012.
[42] E.D. Va. Statement of Facts filed October 9, 2012.

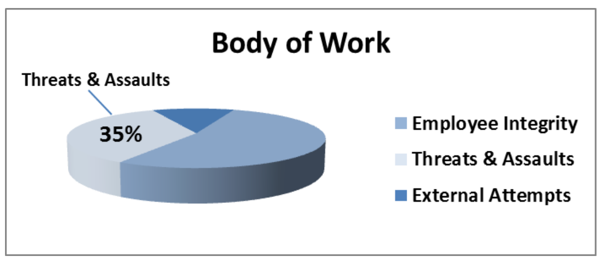
responsibility to protect Federal tax administration by identifying, investigating and responding to threats against IRS personnel and physical infrastructure.

Over the past several years, our Nation has experienced numerous random shooting incidents in schools, private offices and public areas. As part of its mission to protect IRS assets, especially employees, against all threats, TIGTA special agents are trained to respond to any and all such unpredictable and violent events that may occur in IRS facilities.

TIGTA's partnership with the IRS Office of Employee Protection (OEP) to identify potentially dangerous taxpayers is one example of TIGTA's commitment to protecting IRS employees. If a taxpayer has been designated as potentially dangerous, TIGTA conducts a follow-up assessment of the taxpayer so that OEP can determine if the taxpayer still poses a danger to IRS employees.

TIGTA special agents are responsible for providing physical security, known as "armed escorts," to IRS employees in certain dangerous situations. Upon request, TIGTA's special agents escort IRS employees when they require personal contact with a potentially dangerous taxpayer. These armed escorts provide a safe environment for the IRS employee to conduct tax administration functions. During this reporting period, OI conducted 36 armed escorts for IRS employees.

In support of its proactive threat initiatives, TIGTA maintains a full-time presence at the Federal Bureau of Investigation's National Joint Terrorism Task Force and the Domestic Terrorism Operations Unit. These special agents are responsible for timely dissemination of threat information that directly impacts IRS personnel, facilities, or critical infrastructure to the appropriate officials.



During this six-month reporting period, threat and assault investigations accounted for 35 percent of OI's work. The following cases represent some of OI's efforts to safeguard IRS employees during this reporting period.

Jason Bowser Sentenced for Threat Against a Federal Official

On December 19, 2012, in the Middle District of Pennsylvania, Jason Bowser was sentenced to time served for making a threat against a Federal official.[43] According to court documents, on or about March 1, 2012, Bowser threatened to assault and murder IRS agents, with intent to impede, intimidate, and interfere with the agents while engaged in performance of their official duties.[44]

[43] M.D. Pa. Judgment filed Dec 19, 2012.
[44] M.D. Pa. Indict. filed Apr. 25, 2012.

Elizabeth Cowart Sentenced for Attempt to Interfere With Administration of Internal Revenue Laws

Elizabeth Cowart was sentenced for attempting to interfere with the administration of Internal Revenue laws.[45] In April 2012, Cowart telephoned the IRS Tax Help Line from Thomasville, Georgia. She spoke with an IRS Contact Representative to inquire about the status of her 2011 Federal income tax refund. Because Cowart was the victim of an identity theft, processing of her tax refund had been delayed. The IRS Contact Representative told her that she could expect to receive her refund by April 23, 2012.[46]

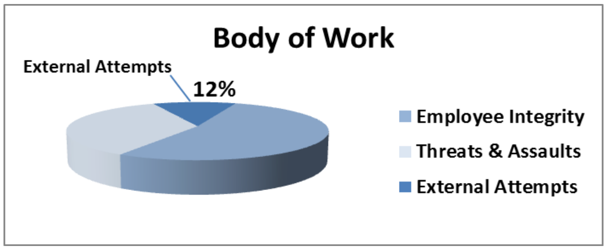
Cowart was not satisfied with this answer and asked to speak with someone else. She was told that no one else was available but that she could go to her local walk-in office for assistance. Cowart then stated, "If it is not here on April 23rd, I'm going to go to my local ... local office with a machine gun; and I'm gonna shoot every *** body in there. I will go. Oh, I will."[47]

Cowart pled guilty on December 12, 2012, to attempting to interfere with the administration of Internal Revenue laws.[48] On March 7, 2013, in the Middle District of Georgia, Albany Division, she was sentenced to 12-months probation.[49]

External Attempts to Corrupt Tax Administration

TIGTA is statutorily mandated to investigate external attempts to corrupt or interfere with the administration of Internal Revenue laws. Bribes offered by taxpayers to compromise IRS employees; the manipulation of IRS systems and programs through the use of false liens and IRS financial reporting instruments; the use of fraudulent IRS documentation; and impersonation of IRS officials are some of the ways Federal tax administration can be corrupted or impeded. These attempts to corrupt or otherwise interfere with tax administration inhibit the Treasury's ability to collect revenue and undermine the public's confidence in fair and effective tax administration.

During this reporting period, investigations into attempts to corrupt or impede tax administration accounted for 12 percent of OI's work. The following cases represent OI's efforts to deter external attempts to corrupt tax administration during this six-month reporting period.



[45] M.D. Ga. Judgment filed Mar. 14, 2013.
[46] M.D.Ga. Plea Agreement filed Dec. 12, 2012.
[47] *Id.*
[48] M.D.Ga. Minute Sheet: Change of Plea filed Dec. 12, 2012, and M.D.Ga. Indict. filed Sept. 12, 2012.
[49] M.D.Ga. Judgment filed Mar. 14, 2013.

Randy Huffaker Sentenced for Impeding Internal Revenue Laws and Filing False Liens or Encumbrances against Government Officials

Randy Huffaker was sentenced for impeding Internal Revenue laws and filing false liens or encumbrances against Government officials.[50] Huffaker filed, or attempted to file, false and fictitious liens or encumbrances against the IRS Commissioner and the Comptroller of the Currency, both of whom were Government officials protected by Federal law. He filed these liens and encumbrances knowing that each lien or encumbrance was false and fictitious. Huffaker repeatedly mailed extensive documents to the personal residence of the Commissioner regarding Huffaker's tax debts, in which he demanded action.[51]

Huffaker was sentenced on March 18, 2013, in the District of Utah, Central Division, to time served and 12-months' supervised release. He was also ordered to pay $33,996 in restitution to the IRS for impeding Internal Revenue laws and filing false liens or encumbrances against Federal Government officials.[52] Huffaker had previously pled guilty to the charges on December 3, 2012.[53]

John Williamson Sentenced for Retaliating Against IRS Employees

On November 15, 2012, in the District of New Mexico, John Williamson was sentenced to four-months in prison for attempting to interfere with the administration of Internal Revenue laws, and retaliating against Federal employees by false claim, with three-years supervised release.[54] According to the indictment, Williamson attempted to impede the administration of the Internal Revenue Code by filing a false claim of lien and encumbrance against the real and personal property of IRS employees for performing their official duties. Williamson knew that the lien and encumbrance was false and contained fraudulent statements, including a claim that the IRS employees owed Williamson approximately $1 billion.[55]

Gavriel Murdukhayevich Aronov Sentenced for Illegal Gratuity to a Public Official and Structuring

On February 19, 2013, Gavriel Murdukhayevich Aronov was sentenced in the District of Arizona for Illegal Gratuity to a Public Official and Structuring.[56] Aronov was previously indicted by a Federal grand jury, charging him with one count of Bribery and nine counts of Structuring.[57] Aronov pled guilty to Illegal Gratuity to a Public Official and Structuring.[58]

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[50] D. Utah Judgment filed Mar. 21, 2013.
[51] D. Utah Stat. in Advance of Plea filed Dec. 3, 2012.
[52] D. Utah Judgment filed Mar. 21, 2013.
[53] D. Utah Crim. Docket filed Feb. 22, 2012; and D. Utah Stat. in Advance of Plea filed Dec. 3, 2012.
[54] D. N.M. Sentencing Minute Sheet filed Nov. 15, 2012.
[55] D. N.M. Indict. filed Oct. 26, 2012.
[56] D. Ariz. Judgment filed Feb. 20, 2013.
[57] D. Ariz. Indict. filed June 5, 2012; Structuring is the offense of breaking a financial transaction into multiple, smaller transactions for the purpose of evading reporting requirements.
[58] D. Ariz. Plea Agr. filed Dec. 6, 2012

In the plea agreement, Aronov admitted that in April 2012, an IRS revenue agent was conducting an audit of Aronov's income tax returns for 2009 and 2010. During the course of the audit, the revenue agent determined that Aronov owed approximately $34,000 in additional unpaid taxes and penalties based in part on unreported income and debt cancellation. Aronov offered the revenue agent $5,000 cash for the revenue agent to adjust the audit report to show zero tax liability.[59]

Aronov also admitted that, on October 15, 2010, he entered a bank and stated that he wanted to deposit $40,000 cash but did not want the transaction reported to the Government. He asked the banker for ways to avoid the reporting requirements and then deposited the cash at a different bank in a series of transactions under $10,000.[60]

Aronov was sentenced to three-years probation and ordered to pay a $5,000 fine.[61]

Identity Theft Initiative

When the crime of identity theft occurs within TIGTA's jurisdiction, OI initiates an investigation. Not only does identity theft have a negative impact on the economy, but the damage it causes to its victims can be personally, professionally, and financially devastating. When individuals steal identities and file fraudulent tax returns to obtain refunds before the legitimate taxpayers file, the crime is simple tax fraud and falls within the programmatic responsibility of IRS Criminal Investigation (CI). There are, however, other variations of tax-related identity theft that fall within TIGTA's jurisdiction and have a significant impact on taxpayers.

TIGTA focuses its limited investigative resources on identity theft cases that include:

- IRS employee involvement;
- Theft or misuse of client information by tax preparers; and
- Impersonation of the IRS through phishing schemes[62] or other means.

[59] *Id.*
[60] *Id.*
[61] D. Ariz. Judgment filed Feb. 20, 2013.
[62] Phishing is an attempt by an individual or group to solicit personal and financial information from unsuspecting users in an electronic communication by masquerading as trustworthy entities such as government agencies, popular social web sites, auction sites, online payment processors, or IT administrators.

In its efforts to aggressively combat identity theft, OI is using its investigative resources to: 1) actively seek out and participate in Federal, State, and local identity theft task forces; 2) identify IRS employees who may be using taxpayer information to engage in identity theft; 3) respond to allegations that IRS employees and tax preparers may be involved in identity theft activity; and 4) identify and locate e-mail scammers and IRS impersonators engaged in identity theft.

> "Incidents of identity theft affecting tax administration have continued to rise since Calendar Year 2011, when the IRS identified more than one million incidents of identity theft that impacted our Nation's tax system. As of October 27, 2012, the IRS identified almost 1.2 million incidents during 2012. This figure includes approximately 186,000 incidents in which taxpayers contacted the IRS alleging that they were victims of identity theft, as well as more than one million incidents where the IRS detected the occurrence of potential identity theft."
>
> J. Russell George
> Treasury Inspector General for Tax Administration
> "Identity Theft and Tax Fraud: Growing Problems for
> the Internal Revenue Service" testimony on Nov. 29, 2012

Protecting Sensitive Taxpayer Information

Electronic tax records of all taxpayers are stored in computer systems maintained by the IRS. Loss, theft, or misuse of this information can result in identity theft or other fraud. OI works to ensure the privacy and security of taxpayer information by detecting and investigating IRS employees who make or attempt to make unauthorized accesses to taxpayer information as well as individuals who attempt to gain unauthorized access to IRS information systems and networks.

To ensure that sensitive taxpayer information is protected, OI evaluates IRS computer applications that process or contain taxpayer information. OI also conducts proactive initiatives to detect unauthorized access to taxpayer data using a variety of tools. During this reporting period, OI initiated 112 unauthorized access investigations.

Combating Phishing Schemes

Criminals involved in identity theft schemes use creative ways to obtain victims' personally identifiable information, or "PII," to commit fraud. Phishing, which usually involves the mass solicitation of potential victims through e-mail or other forms of electronic communication, is a widespread method used by criminals to steal another's identity.

Scammers often send e-mails claiming to be from the IRS. These phishing e-mails contain a "hook" that induces the victim to take some sort of overt action. The e-mail scammers may lead the victim to believe that they are due a tax refund from the IRS or that they have won a lottery, but that they must first pay a "tax" before they can receive the money. The victim is instructed to provide their PII and financial information such as bank account numbers or credit card numbers to the scammer before the refund or lottery winnings can be released.

Some phishing schemes are designed to install malicious code, or “malware,” on a victim’s computer. The malware is installed when the victim opens an attachment to the phishing e-mail or clicks on a hyperlink in the e-mail. Once installed, the malware can steal information from the victim’s computer or the victim’s computer can be used in a network of compromised computers which are often used to perpetrate other illicit activity.

Phishing schemes may range in their technical complexity; however, most share a common trait: They involve computers located outside the U.S. While this poses a significant investigative challenge, OI has been successful in working with law enforcement in foreign countries to identify the perpetrators and obtain prosecutions.


TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY

Advancing Oversight of America's Tax System

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. I&E's 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.

Inspections are intended 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.

Evaluations are intended to:

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

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

Inspection of Internal Revenue Service Controls to Achieve Its Goal of Reducing Time Charges for Union Activities

The results of this inspection determined whether the IRS has adequate controls in place to achieve its goal to reduce overall time charges associated with employee union activities.

According to the 2009 National Agreement II (Agreement), the IRS and the National Treasury Employees Union (NTEU or Union) committed to reducing the amount of official[63] and bank[64] time used for representational activities by an overall five percent during each year of the Agreement. We found that IRS and NTEU efforts resulted in reduced Union time charges overall; however, the goal of a five percent reduction was not achieved.

TIGTA determined that several shortfalls limited the IRS's and the NTEU's ability to achieve their overall five percent reduction. We determined that the lack of incentives and targeted reduction goals for official time and the methodology for determining annual bank time allocations limited the parties' ability to reach the stated reduction goal. Furthermore, we determined that the IRS's general time codes for official and bank time use, which respectively accounted for 55 percent and 86 percent of time used in FY 2011, did not provide enough detail to adequately account for Union activities. Also, we found that 79 Local Official Time Utilization Plans had not been revised since the implementation of the Agreement, and that the IRS and the NTEU did not clarify justifications and methodologies used for determining appointments of full-time stewards, who accounted for approximately 52 percent of all Union time charges.
Report Reference No. 2013-IE-R001

Review of Criminal Investigation's Relocation Incentives and Post of Duty Neutral Program

This project was initiated to determine whether decisions made to relocate CI executives and senior managers, or to reassign their posts of duty to Post of Duty neutral, complied with travel policies, procedures, and regulations.

TIGTA found that improvements are needed in CI's use of relocation incentives and the implementation of the Post of Duty Neutral Program. CI has encouraged its employees to relocate to the National Headquarters office in Washington, D.C., to gain national experience as part of its draft Special Agent Leadership Strategy. As a result, CI has significantly increased the amount of permanent change-of-station and temporary change-of-station relocation incentives granted to its employees by almost $1.2 million (407 percent) over five years (2007 through 2011).

TIGTA also found the relocation incentive requests reviewed adequately documented the special or unique competencies required for the position and demonstrated how the individual was qualified for the position. However, TIGTA believes that the decision to pay the incentive would be stronger if the documentation included a list of applicants who applied for the position and information related to their qualifications.

Furthermore, TIGTA found two cases where the certification managers did not recommend approval for two relocation incentive requests. However, the secondary

[63] Official time is duty time granted when stewards are participating in meetings or other communications with IRS management. Official time may also be prescribed for travel to and from such meetings.
[64] Bank time is duty time granted in order for stewards to confer with employees, prepare grievances, prepare for arbitration, or prepare a reply to a notice of proposed disciplinary, adverse, or unacceptable performance action. Bank time is authorized for activities not conducted in the presence of management.

reviewer approved the request without documenting the basis for disregarding the recommendations made by the certification managers. Additionally, TIGTA found that two requests were not properly approved.

Lastly, TIGTA identified significant weaknesses within the CI Post of Duty Neutral Program. CI has not finalized the policy, identified the employee requirements to participate in the program, or defined the metrics to evaluate the program's effectiveness. Additionally, CI has not documented the methodology used for the reduced per diem rates, and the policy is not consistently applied among program participants.

TIGTA recommended that the Chief, CI, ensure that adequate documentation is prepared and maintained to support management's decision to approve or deny each relocation incentive, evaluate the effectiveness of temporary change-of-station and permanent change-of-station assignments, and revise and finalize the Special Agent Leadership Strategy.

TIGTA also recommended that the Chief ensure that the policy for the Post of Duty Neutral Program is revised and finalized. The Chief should also determine whether the Program is cost effective.

The IRS agreed with the recommendations. The Chief, CI, plans to assess the effectiveness of the temporary change-of-station and permanent change-of-station assignments, and to review and revise the relocation program's mobility policies. Additionally, the Chief plans to require that documentation to support the relocation incentive includes the pool of candidates that applied for the position, as applicable. The Chief also plans to determine whether the CI Post of Duty Neutral Program is cost effective and viable. If the Post of Duty Neutral Program is deemed viable, the program's policies and procedures are expected to be enhanced.
Report Reference No. 2013-IE-R002


TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY

TIGTA's International Programs

TIGTA is committed to providing comprehensive oversight of IRS international programs and operations by developing a strategy of international audit, inspection, and law enforcement liaison and outreach. This will enhance TIGTA's capacity to execute its oversight model in the international environment.

The United States (U.S.) taxes U.S. individuals and businesses on their world-wide income and taxes foreign persons on their U.S. source income. The international tax administration can be divided into four general areas:

- U.S. business cross-border;
- Foreign business in the U.S.;
- Individual person cross-border; and
- Foreign person in the U.S.

The tax law for cross-border transactions and investments can be highly complex and specialized. For both businesses and individuals, partnerships, and tiered structures are used for both business purposes and to obscure the beneficial owner of the assets.

The President, the Secretary of the Treasury, and the IRS Commissioner have placed an emphasis on international tax compliance. Also, business tax reform discussions include potential substantive changes to intercompany transfer pricing policy. In addition, the Foreign Account Tax Compliance Act (FACTA)[65] is being implemented by the IRS to help prevent U.S. taxpayers from hiding assets offshore.

The International Tax Gap

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. The International Tax Gap – the amount the U.S. loses each year that is attributable to the abuse of offshore tax havens – is estimated to be approximately $100 billion.[66]

The IRS has embraced a Service-wide approach to international tax administration that seeks to address more effectively the increased globalization of both individuals and businesses. This strategy is designed to improve voluntary compliance with international tax provisions and to reduce the Tax Gap attributable to international transactions.

TIGTA is in the process of evaluating whether the IRS has comprehensive measures of the Tax Gap. This evaluation includes whether the IRS methods include estimates for

[65] Pub. L. No. 111-147, Subtitle A, 124 Stat 71, 96-116 (2010) (codified in scattered sections of 26 U.S.C.).
[66] U.S. Senate Committee on Homeland Security and Government Affairs, Permanent Subcommittee on Investigations, 110th Cong., Report on Tax Haven Banks and U.S. Tax Compliance (Staff Report 2008)., Washington, D.C., July 17, 2008, http://hsgac.senate.gov/public/_files/071708PSIReport.pdf.

offshore tax evasion by individuals and separate estimates for corporate noncompliance in global transactions.

International Visitors

TIGTA's international strategy includes engaging with foreign tax authorities in the sharing of mutually beneficial strategies for providing oversight of the IRS and foreign national revenue collection agencies.

During this six-month reporting period, TIGTA was very pleased to host a delegation from Vietnam. International visits with delegations from other countries, administered in association with the IRS International Visitors Program, serve to build working relationships and foster increased cooperation in the arena of international tax administration.

Vietnam

In October, 2012, TIGTA hosted a ten-member delegation led by Mr. Nguyen Kim Lien, the Chief Inspector of Vietnam's Ministry of Finance. The delegation met with representatives from OA to achieve an understanding of how the Inspector General system works, and how internal audits are conducted within the Department of the Treasury. The audit-centric discussion provided the visiting delegation a better understanding of TIGTA's role in our Nation's tax administration and its relationship with the IRS.

TIGTA includes international tax administration as part of its annual audit-planning process. At the end of FY 2012, TIGTA was finishing several reviews. These include a review of the Foreign Earned Income Exclusion where TIGTA is determining the impact of this exclusion on tax administration. TIGTA is also looking at the IRS's processing of Foreign Currency Payments to determine if taxpayer payments collected in foreign currencies are being effectively and efficiently processed. In addition, TIGTA's review of Foreign Corporations Filing Compliance will determine whether the IRS's automated penalty process has achieved its goal of encouraging filing compliance for entities with Forms 5471, *Information Returns of U.S. Person With Respect to Certain Foreign Corporations*, reporting requirements.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act)[67] was enacted on February 17, 2009. The Recovery Act presented significant challenges to all Federal agencies as they moved 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.[68]

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:

Review of the IRS's Recovery Act Fund Expenditures During the Period April 2, 2010 Through September 30, 2010

This report presented the results of our inspection to evaluate the IRS's compliance with the Office of Management and Budget's (OMB)[69] implementing guidance[70] for the Recovery Act. This is the third in a series of inspections regarding compliance with OMB Recovery Act guidance.

The overall objective of this inspection was to verify the accuracy and timeliness of the payment of the IRS's Recovery Act procurement invoices and the timeliness and transparency of reporting these expenditures for the period of April 1, 2010 through September 30, 2010.

Our review of the IRS Recovery Act-related expenditures from April 1, 2010 through September 30, 2010 showed that the IRS was substantially in compliance with OMB's Recovery Act implementation guidance. The IRS purchased Recovery Act-related goods and services totaling more than $27 million during the period and obtained 92.2 percent of the more than $225,000 in funds available for discounts on Recovery Act-related

[67] Pub. L. No. 111-5, 123 Stat. 115 (2009).
[68] American Recovery and Reinvestment Tax Act of 2009 (Recovery Tax Act), Pub. L. No. 111-5, § 1001, 123 Stat 115, *306, subsequently amended by the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010, Pub. L. No. 111-312, 124 Stat. 3296.
[69] OMB has primary responsibility for developing Governmentwide rules and procedures to ensure that funds are awarded and distributed in a prompt and fair manner, that the use of funds is transparent to the public, and that steps are taken to mitigate waste, fraud, and abuse.
[70] Office of Mgmt. & Budget, Exec. Office of the President, OMB M-09-10, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009 (2009); M-09-15, Updated Implementing Guidance for the American Recovery Reinvestment Act of 2009 (2009); and M-10-34, Updated Guidance on the American Recovery and Reinvestment Act (2010).

procurements. For these expenditures, the IRS executed adequate internal controls to ensure accurate and timely reporting.

However, we observed that 11 weeks of the Financial and Activity Reports for the IRS Recovery Act expenditures, totaling approximately $7.4 million, were not posted on http://www.recovery.gov (Recovery.gov). As a result, one of the major goals of the Recovery Act, to establish unprecedented transparency, was not fully achieved because the public was not able to timely see the complete IRS Recovery Act expenditure data on the website. These omissions were corrected on September 6, 2012, after our discussion with the IRS about its controls and processes for Recovery Act expenditures. Also, the IRS made two delayed invoice payments, which resulted in additional payments of more than $18,000.[71] IRS management agreed with the observations in our report.
Reference No. 2013-IE-R003

Assessment of the IRS's Interpretation of § 1302 of the Recovery Act: Qualifying Advanced Energy Project Credit

Section 1302 of the Recovery Act established the Qualifying Advanced Energy Project Credit (Advanced Energy Credit).[72] The Advanced Energy Credit was intended to encourage development of a manufacturing base to support renewable energy industries. The Recovery Act provided for $2.3 billion in Advanced Energy Credits to be allocated to manufacturers for qualified projects.

TIGTA found inconsistencies between the issued guidance and the law. The inconsistencies between the IRS Notice 2009-72 and I.R.C. § 48C criteria resulted from the IRS's efforts to: 1) simplify program guidance so it would be more easily understood by manufacturers; and 2) ensure that the Credits were disbursed equitably among qualified applicants. However, the inconsistencies did not affect the IRS's compliance with the I.R.C. requirements when awarding the Advanced Energy Credit.

In addition, the IRS cited its rule-making authority and the general language of the law as its basis to use additional selection criteria. Based on the lack of clarity in the law, the IRS used its authority under Title 5 of the United States Code to interpret the law to mean that the IRS must consider all of the criteria contained in the law, but that it could include additional criteria as it deemed appropriate. The IRS, in conjunction with the Department of Energy, determined that the application of Program Policy Factors was appropriate, and set forth the rules in IRS Notice 2009-72.

The Department of Energy noted that the Program Policy Factors were used to ensure that the $2.3 billion in awarded Credits was disbursed across a range of project types, sizes, and locations among qualified applicants. The use of the Program Policy Factors affected which qualified projects that the Department of Energy recommended to the IRS.

[71] On one invoice payment, the IRS did not take $17,583 of the total discount offered by the contractor due to delay in payment. On another invoice, an overpayment of $1,159 was incurred due to late payment.
[72] Pub. L. No. 111-5, § 1302,123 Stat 115, 345.

All Advanced Energy Credit awards made by the IRS were consistent with Department of Energy rankings and recommendations. The IRS's involvement in the ranking and review process was limited to verifying that manufacturers timely filed a complete application for certification with the IRS for each recommended energy project. As a result, TIGTA made no recommendations in this report.

Reference No. 2013-40-029


TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY

An Organization That Values Its People

Employee Viewpoint Survey and Best Places to Work Ranking

The Partnership for Public Service uses data from OPM's 2012 Federal Employee Viewpoint Survey (FEVS) to rank agencies and their subcomponents according to a "Best Places to Work" index score. Agencies and subcomponents are not only measured on overall employee satisfaction but are assessed in 10 workplace categories. Category examples include effective leadership, employee skills/mission match, pay, teamwork, and work/life balance. TIGTA remains at the forefront as one of the "Best Places to Work" in the Federal Government. In 2012, TIGTA ranked 13th out of 292 agency subcomponents, up from 16th of 240 agency subcomponents in 2011. It is noteworthy that TIGTA ranked the highest of all Treasury bureaus for FY 2012.

Employees are TIGTA's most valuable resource, and each employee contributes to the recognition of TIGTA as one of the best places to work. TIGTA is encouraged by its participation rate on OPM's FEVS (70 percent of eligible TIGTA staff), which exceeds the Governmentwide response rate by 24 percent. Also, TIGTA's high participation rate reveals its employees' understanding and focus on the organization's mission, resulting in significant contributions to, and impact on, improving the Nation's tax administration system. Employee feedback through the FEVS process reflects employees' belief that providing feedback is important, and that employee input can bring change and organizational enhancements. TIGTA executives are addressing the results, evaluating the organization's strengths, and exploring ways to improve organizational communications and performance.

Part of TIGTA's quest in making continual organizational improvements includes its comprehensive FY 2013 FEVS Action Plan. This Plan focuses on the overall analysis of the FEVS results and addresses three systems defined in the Human Capital Assessment and Accountability Framework. Specifically:

- Results Oriented Performance Culture;
- Talent Management; and
- Leadership and Knowledge Management.

TIGTA's Plan includes corporate goals in addition to function-specific goals for continuing to improve organizational performance and communications.

Awards and Special Achievements: TIGTA Recognized for Small Business Acquisition Achievements

Jeff Stephenson, Assistant Director of the Office of Mission Support's Procurement Services Directorate, was named the Department of the Treasury 2012 "Contracting Officer Representative of the Year." This esteemed honor is awarded to the Treasury Contracting Officer Representative who has demonstrated exceptional commitment or contributions leading to the overall success of the small business effort by procuring goods and services from the small business community during the previous fiscal year.

Selection criteria for this distinguished honor include:

- Innovation of New Contract Opportunities
- Advanced Acquisition Planning Process
- Market Research
- Increased Small Business Participation
- Participation in Outreach Activities

FY 2012 was the second consecutive landmark year for small business contracting across the Department of the Treasury. The overall Treasury small business contracting percentage landed well above the stretch goal of 35 percent and the accomplishments in all four socioeconomic categories exceeded the respective goals, as well. TIGTA exceeded all of its small business goals for the second year in a row and surpassed its Fiscal Year 2011 small business performance in all but one category. The Department of the Treasury recognized all individual and bureau achievements in small business acquisition at an awards ceremony on December 18, 2012. Additionally, TIGTA received a Gold Medal Award for its small business contracting successes.

Jeffrey Stephenson receives award for Contracting Officer Representative of the Year. He is pictured with Mike Phillips, Acting Principal Deputy Inspector General. Photograph by Chris Taylor, U.S. Treasury Department.

Congressional Testimony

During this reporting period, Inspector General J. Russell George testified before Congress on two occasions. The following are summaries of his testimony.

On November 29, 2012, Mr. George testified before the House Committee on Oversight and Government Reform, Subcommittee on Government Organization, Efficiency, and Financial Management on "Identity Theft and Tax Fraud: Growing Problems for the Internal Revenue Service, Part IV." Mr. George stated that the total impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents, and the IRS is not providing effective assistance to taxpayers who report that they have been victims of identity theft.

Mr. George's testimony focused on the results of two TIGTA audit reports[73] on identity theft as well as the IRS's progress on detecting and resolving identity theft issues related to tax administration.

Despite the increased number of identity theft incidents the IRS has found, the IRS is still challenged in detecting and preventing them. Using the characteristics of confirmed identity theft, TIGTA analyzed TY 2010 tax returns processed during the 2011 Filing Season and identified 1.5 million undetected tax returns with potentially fraudulent tax refunds totaling in excess of $5 billion. If not addressed, TIGTA estimates that the IRS could issue approximately $21 billion in fraudulent tax refunds resulting from identity theft over the next five years.

Most identity theft cases are complex and can present considerable challenges throughout the resolution process. For example, it can be difficult to discern the legitimate taxpayer or whether the case is actually a case of identity theft. On occasion, a taxpayer will transpose the digits in his or her Social Security Number (SSN), but will not respond to an IRS request for information to resolve the case. As a result, the IRS may not be able to identify the legitimate taxpayer. With other cases we have reviewed, taxpayers claimed to be victims of identity theft after the IRS had questioned deductions or credits or proposed examination adjustments. There have been instances in which the SSA has issued the same SSN to different taxpayers.

In addition, resources have not been sufficient to work identity theft cases dealing with refund fraud and continue to be a concern. IRS employees who work the majority of identity theft cases are telephone assistors who also respond to taxpayers' calls to the IRS's toll-free telephone lines. TIGTA is concerned that demanding telephone schedules and a large identity theft case inventory make it difficult for assistors to prioritize identity theft cases. Nevertheless, because of limited resources and the high taxpayer demand

[73] TIGTA, Ref. No. 2012-40-050, *Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service* (May 2012); TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

for telephone assistance, assistors who work identity theft cases also work the telephones on Mondays (and any Tuesday following a Monday holiday).

The management information system that telephone assistors use to control and work cases can add to the taxpayer's burden. For instance, one victim may have multiple cases opened and multiple assistors working his or her identity theft issue. A review of 17 taxpayers' identity theft cases showed that 58 different cases had been opened and multiple assistors worked their cases. Victims become further frustrated when they are asked numerous times to prove their identities, even though they have previously followed IRS instructions and sent in Identity Theft Affidavits and copies of identification with their tax returns. TIGTA also found that the IRS sends the victims duplicate letters at different times, wasting agency resources and possibly confusing the victims. Neither letter advises when the taxpayer should expect to receive his or her tax refund.

The IRS has begun implementing new procedures. For example, the IRS reorganized to establish an Identity Theft Program Specialized Group within each of the business units and/or functions where employees are assigned specifically to work the identity theft portion of the case. It has also revised processes to shorten the time it takes the IRS to work identity theft cases and has refined codes to better detect and track identity theft workloads. The IRS is also reviewing its suite of identity theft letters to determine if the information contained therein is accurate and applicable to the taxpayer's identity theft circumstance.

Although the IRS is continuing to make changes to its processes to increase its ability to detect, prevent, and track fraudulent tax returns and to improve assistance to victims of identity theft, much work remains. As such, TIGTA is currently conducting two follow-up reviews to measure the IRS's progress in these areas.[74]

On March 5, 2013, Mr. George testified before the House Committee on Appropriations, Subcommittee on Financial Services and General Government on its "Oversight Hearing - Department of Treasury." Mr. George's testimony highlighted TIGTA's recent work related to the most significant challenges currently facing the IRS, as well as on opportunities for program efficiencies and cost savings within the IRS.

A serious challenge confronting the IRS is the Tax Gap, which is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a Tax Year. The most recent gross Tax Gap estimate developed by the IRS was $450 billion for TY 2006. It is important to note that because of the methods that are used, a significant portion of the Tax Gap is inferred and/or not observed.

The IRS Whistleblower Program plays an important role in reducing the Tax Gap and maintaining the integrity of a voluntary tax compliance system. However, TIGTA reported that the Program continued to have internal control weaknesses on the processing of

[74] TIGTA, Audit No. 201240041, *Effectiveness of Assistance Provided to Victims of Identity Theft* (Follow-Up), report planned for June 2013.

whistleblower claims. For example, information captured from multiple systems and entered into a single inventory control system was potentially inaccurate, and the quality review process for the new inventory system was not sufficient to ensure that claims were accurately controlled. Additionally, TIGTA determined that timeliness standards for processing claims were insufficient. Inadequate oversight of the Whistleblower Program hampers the IRS's ability to timely respond to tax noncompliance issues.[75]

Implementing the Affordable Care Act (ACA) is another major challenge facing the IRS. The ACA provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. They also impose penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees. Revenue provisions contained in the legislation are designed to generate $438 billion over 10 years[76] to help pay for the overall cost of health care reform.

In June 2012, TIGTA reported that appropriate plans had been developed to implement tax-related provisions of the ACA using well-established methods for implementing tax legislation.[77] The IRS projected its FYs 2012 and 2013 ACA staffing needs to be 1,278 full-time equivalent[78] (FTE) employees and 859 FTEs, respectively. The IRS, however, has not projected staffing needs beyond FY 2013.

The IRS also faces challenges in the proper administration of refundable tax credits.[79] The most significant refundable credit is the Earned Income Tax Credit (EITC). The EITC remains the largest refundable credit based on the total claims paid, and it continues to be vulnerable to a high rate of noncompliance, including incorrect or erroneous claims caused by taxpayer error or resulting from fraud. TIGTA continues to report that the IRS does not have effective processes to ensure that claimants qualify for these credits at the time tax returns are processed and prior to issuance of fraudulent tax refunds.

The Additional Child Tax Credit (ACTC) is also susceptible to improper claims. However, the IRS did not identify the ACTC as a high-risk program under the Improper Payments Elimination and Recovery Act of 2010. Agencies are not required to take any further action to assess or quantify improper payments if a high risk for improper payments does

[75] TIGTA, Ref. No. 2012-30-045, *Improved Oversight Is Needed to Effectively Process Whistleblower Claims* (Apr. 2012).
[76] Joint Committee on Taxation, JCX-17-10, Estimated Revenue Effects of the Amendment in the Nature of a Substitute to H.R. 4872, the "Reconciliation Act of 2010," as Amended, in Combination With the Revenue Effects of H.R. 3590, the "Patient Protection and Affordable Care Act ('PPACA')," as Passed by the Senate and Scheduled for Consideration by the House Committee on Rules on March 20, 2010 (March 20, 2010).
[77] TIGTA, Ref. No. 2012-43-064, *Affordable Care Act: Planning Efforts for the Tax Provisions of the Patient Protection and Affordable Care Act Appear Adequate; However, the Resource Estimation Process Needs Improvement* (June 2012).
[78] A measure of labor hours in which one full-time equivalent (FTE) is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.
[79] A refundable tax credit is a tax credit that is treated as a payment and can be refunded to the taxpayer. Refundable credits can create a Federal tax refund that is larger than the amount a person actually paid in taxes during the year.

not exist. As a result, the IRS and the Department of the Treasury are not required to quantify and report on ACTC improper payments. Nevertheless, TIGTA found that taxpayers repeatedly claimed erroneous ACTCs after their claims were disallowed the previous year.[80] The IRS could have saved more than $108 million by reviewing claims made by taxpayers who were previously disallowed the credit.

Providing effective taxpayer services is also a significant challenge facing the IRS. As demand for taxpayer services continues to increase, resources have decreased, thereby affecting the quality of customer service that the IRS is able to provide. A reduction in funding for toll-free telephone and correspondence services resulted in a Level of Service for FY 2012 of 67 percent. From the 2007 to the 2012 Filing Season, the IRS's ability to process taxpayer correspondence in a timely manner also declined.

The IRS faces human capital issues as well. In addition to a workforce that shrunk by approximately 10,000 employees between the end of FY 2010 and the end of FY 2012, IRS data show that more than one-third of all executives and almost 20 percent of nonexecutive managers are currently eligible for retirement. Within five fiscal years, nearly 70 percent of all IRS executives and nearly one-half of the IRS's nonexecutive managers are projected to be eligible for retirement. Ultimately, the IRS must provide reasonable assurance that it has the right people in the right place at the right time to provide taxpayers with top-quality service and to enforce the law with integrity and fairness to all.

While the IRS has made progress to improve program effectiveness and reduce costs, TIGTA has identified other opportunities for efficiencies and cost savings:

- The IRS was not always fully reimbursed for services it provides to other Federal Government agencies. Specifically, we identified more than $28 million in costs incurred by the IRS in FY 2011 that were not reimbursed. As a result, the IRS funded this work using its own operating budget, thereby reducing funds available for tax administration.[81]

- The IRS can reduce its office space needs by almost 1 million square feet, resulting in potential rental savings of over $100 million over five years, by establishing a policy requiring employees who telework to share workstations.[82]

[80] TIGTA, Ref. No. 2012-40-105, *Expansion of Controls Over Refundable Credits Could Help Reduce the Billions of Dollars of Improperly Paid Claims* (Sep. 2012).
[81] TIGTA, Ref. No. 2012-10-076, *The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in Reduced Funds Available for Tax Administration* (July 2012).
[82] TIGTA, Ref. No. 2012-10-100, *Significant Additional Real Estate Cost Savings Can be Achieved by Implementing a Telework Workstation Sharing Strategy* (Aug. 2012).

Audit Statistical Reports

Reports With Questioned Costs

TIGTA issued one audit report with questioned costs during this semiannual reporting period.[83] 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.

Reports with Questioned Costs			
Report Category	**Number**	**Questioned Costs[84] (in thousands)**	**Unsupported Costs (in thousands)**
1. Reports with no management decision at the beginning of the reporting period	9	$71,201	$33,302
2. Reports issued during the reporting period	1	$328	$0
3. Subtotals (Item 1 plus Item 2)	**10**	**$71,529**	**$33,302**
4. Reports for which a management decision was made during the reporting period[85] a. Value of disallowed costs	2	$329	$0
b. Value of costs not disallowed	2	$32,377	$32,374
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)[86]	**7**	**$38,822**	**$928**
6. Reports with no management decision within six months of issuance	6	$38,494	$928

[83] See Appendix II for identification of audit reports involved.
[84] "Questioned costs" includes "unsupported costs."
[85] Includes one report in which the IRS allowed part of the questioned costs.
[86] Difference due to rounding.

Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued one audit report during this semiannual reporting period with the recommendation that funds be put to better use.[87] 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 refundable credits; 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 deemed necessary.

Reports with Recommendations that Funds be Put to Better Use		
Report Category	**Number**	**Amount (in thousands)**
1. Reports with no management decision at the beginning of the reporting period	0	$0
2. Reports issued during the reporting period	1	$5,933
3. Subtotals (Item 1 plus Item 2)	**1**	**$5,933**
4. Reports for which a management decision was made during the reporting period a. Value of recommendations to which management agreed		
i. Based on proposed management action	0	$0
ii. Based on proposed legislative action	0	$0
b. Value of recommendations to which management did not agree	1	$5,933
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	**0**	**$0**
6. Reports with no management decision within 6 months of issuance	0	$0

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

Reports With Additional Quantifiable Impact on Tax Administration

In addition to questioned costs and funds put to better use, the Office of Audit has identified measures that demonstrate the value of audit recommendations to tax administration and business operations. These issues are of interest to executives at the IRS and the Department of the Treasury, Members of 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*.

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 communication, 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 was 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.

Reports With Additional Quantifiable Impact on Tax Administration			
Outcome Measure Category	**Number of Reports**[88]	**Number of Taxpayer Accounts**	**Dollar Value (in thousands)**
Increased Revenue	1	0	$29,000
Revenue Protection	1	311,258	$1,111,652
Reduction of Burden on Taxpayers	1	0	$315
Taxpayer Rights and Entitlements at Risk	0	0	$0
Taxpayer Privacy and Security	0	0	$0
Inefficient Use of Resources	1	0	$1,152
Reliability of Management Information	2	0	$87,966,531
Protection of Resources	0	0	$0

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

- Revenue Protection: Reference Number 2013-40-009;
- Taxpayer Burden: Reference Number 2013-30-027; and
- Reliability of Management Information: Reference Number 2013-40-009.

The following reports contained quantifiable impacts other than the number of taxpayer accounts and dollar value:

- Taxpayer Burden: Reference Number 2013-30-027; and
- Reliability of Management Information: Reference Number 2013-10-007.

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

Investigations Statistical Reports

Significant Investigative Achievements October 1, 2012 – March 31, 2013	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,171
Complaints against Non-Employees	1,984
Total Complaints/Allegations	**4,155**
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,192
In Process within TIGTA[89]	284
Referred to IRS for Action	398
Referred to IRS for Information Only	873
Referred to a Non-IRS Entity[90]	2
Closed with No Referral	1,029
Closed with All Actions Completed	377
Returned to IRS – No Action Taken	0
Total Complaints	**4,155**
Investigations Opened and Closed	
Total Investigations Opened	1,536
Total Investigations Closed	1,555
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	$9,523
Court Ordered Fines, Penalties and Restitution	$8,542,741
Out-of-Court Settlements	$0
Total Financial Accomplishments	**$8,552,264**

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

Status of Closed Criminal Investigations			
Criminal Referral	**Employee**	**Non-Employee**	**Total**
Referred – Accepted for Prosecution	27	32	**59**
Referred – Declined for Prosecution	309	175	**484**
Referred – Pending Prosecutorial Decision	42	57	**99**
Total Criminal Referrals[91]	**378**	**264**	**642**
No Referral	**389**	**502**	**891**

Criminal Dispositions[92]			
Criminal Disposition	**Employee**	**Non-Employee**	**Total**
Guilty	26	29	**55**
Nolo Contendere (no contest)	1	1	**2**
Pre-trial Diversion	5	2	**7**
Deferred Prosecution[93]	2	0	**2**
Not Guilty	0	0	**0**
Dismissed[94]	3	2	**5**
Total Criminal Dispositions	**37**	**34**	**71**

Administrative Dispositions on Closed Investigations[95]	
Administrative Disposition	**Total**
Removed or Terminated	**261**
Suspended / Reduction in Grade	**71**
Resigned Prior to Adjudication	**65**
Oral or Written Reprimand / Admonishment	**108**
Clearance Letter	**75**
Closed - No Action Taken	**51**
Non-Employee Actions[96]	**444**
Total Administrative Dispositions	**1075**

[91] Criminal referrals include both Federal and State dispositions.
[92] 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.
[93] 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.
[94] Court dismissed charges.
[95] 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.
[96] 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, as amended, 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 Treasury management officials.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (*F = Finding No., R = Recommendation No., P = Plan No.*)
2007-10-082	Tax Exempt Organizations	May 2007	06/15/13	***Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified*** 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.
2008-40-167	Tax Compliance Initiatives	August 2008	12/15/13	***The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed*** F-2, R-1, P-1. Create a single data entry point for processing Withholding Compliance Program cases and, provide lock-in-letter issuance authority to other IRS functions.
2009-10-107	Improving Performance and Financial Data for Program and Budget Decisions	July 2009	06/15/13 01/15/14	***Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases*** F-1, R-2, P-1. Develop a comprehensive national policy regarding workstation sharing for the flexiplace program and the ratio of flexiplace employees to a shared workstation. F-1, R-4, P-1. Develop procedures requiring that building level projected space needs assessments include consideration of the impact of workstation sharing, and are periodically reconciled in total to agency-wide projected staffing levels.
2009-10-121	Improving Performance and Financial Data for Program and Budget Decisions	September 2009	09/30/13	***The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel*** F-2, R-1, P-1. Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2009-40-130	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	02/15/14	***Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs*** 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.
2010-40-005	Providing Quality Taxpayer Service	December 2009	01/15/14	***Individual Taxpayer Identification Numbers Are Being Issued Without Sufficient Supporting Documentation*** 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.
2010-20-027	Taxpayer Protection and Rights	March 2010	10/15/13 10/15/13 09/15/14 09/15/14	***Additional Security Is Needed For Access to the Registered User Portal*** 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. 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. 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. F-1, R-6, P-1. Implement a control to allow users to answer a series of challenge questions to unlock their accounts.
2010-40-045	Security of the IRS	March 2010	07/15/14	***Telephone Authentication Practices Need Improvement to Better Prevent Unauthorized Disclosures*** 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.
2010-20-044	Modernization of the IRS	May 2010	09/30/13 11/15/14	***Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program*** 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. F-1, R-5, P-1. Ensure energy audits are performed at the data centers.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (*F = Finding No., R = Recommendation No., P = Plan No.)*
2010-30-061	Taxpayer Compliance Initiatives	June 2010	 01/15/14 01/15/14	***Plans Exist to Engage the Tax Preparer Community in Reducing the Tax Gap; However, Enhancements Are Needed*** F-1, R-1, P-1. Update the existing IRS Strategic Plan and ensure strategic plans have 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). 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.
2010-20-084	Security of the IRS	August 2010	11/15/13	***More Actions Are Needed to Correct the Security Roles and Responsibilities Portion of the Computer Security Material Weakness*** 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.
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.
2010-40-121	Taxpayer Compliance Initiatives	September 2010	06/15/13 06/30/13 01/15/14	***Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States*** F-1, R-3, P-1. Determine the feasibility of requiring 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. F-2, R-1, P-1. Use the Foreign Country Codes on Form 1040NR to ensure that the correct tax rate has been applied. 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.
2010-40-127	Taxpayer Compliance Initiatives	September 2010	04/15/13	***It Will Take Years to Implement the Return Preparer Program and to Realize Its Impact*** F-1, R-2, P-1. Establish controls to ensure Preparer Tax Identification Number (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.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (*F = Finding No., R = Recommendation No., P = Plan No.)*
2011-40-014	Taxpayer Protection and Rights	January 2011	04/15/13	***The Income Verification Express Services Program Needs Improvements to Better Protect Tax Return Information*** F-1, R-3, P-1. Within one year of revising Form 13803, contact and obtain a completed Form 13803 from all current Income Verification Express Services Program participants.
2011-40-023	Erroneous and Improper Payments and Credits	February 2011	09/15/13 09/15/13	***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*** F-1, R-1, P-1. Establish quantifiable reduction targets and strategies to meet those targets. F-2, R-1, P-1. Use the National Research Program sample to estimate instances where the IRS incorrectly pays less in Earned Income Tax Credits than the taxpayer claims (underpayments).
2011-20-046	Security of the IRS	May 2011	05/15/15	***Access Controls for the Automated Insolvency System Need Improvement*** F-1, R-1, P-1. Identify incompatible duties and implement policies to segregate those duties, issue a memorandum to program managers requiring them to adhere to the new policy when assigning duties and approving Automated Insolvency System access privileges, and designate a limited number of employees to perform the User Administrator duties.
2011-40-058	Providing Quality Taxpayer Service	July 2011	01/15/15	***Taxpayers Do Not Always Receive Quality Responses When Corresponding About Tax Issues*** F-1, R-3, P-1. Complete the study of the interim letters to ensure that they are strategically timed, alert taxpayers of delays and provide taxpayers with an accurate status and time period for case resolution, provide taxpayers with sufficient information to deter them from using other channels to contact the IRS regarding their case, and are clear and concise.
2011-20-111	Security of the IRS	September 2011	05/01/13	***Continued Centralization of the Windows Environment Would Improve Administration and Security Efficiencies*** F-2, R-1, P-1. Ensure that standards and processes are developed and implemented enterprise-wide to prevent servers and workstations from being connected to the network without the proper authorization and required compliance documentation.
2011-30-112	Taxpayer Compliance Initiatives	September 2011	07/15/13 07/15/13	***Reducing the Processing Time Between Balance Due Notices Could Increase Collections*** F-1, R-1, P-1. Consider reducing the time between each notice by seven days. F-2, R-1, P-1. Consider establishing a business rule to address taxpayers with multiple balance due modules entering the notice stream at the same time.
2012-40-010	Tax Compliance Initiatives	December 2011	07/15/13	***More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed to Ensure All Are Complying With the New Preparer Regulations*** F-1, R-1, P-1. Monitor preparers' compliance with the e-file mandate.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2012-30-011	Tax Compliance Initiatives	January 2012		***Opportunities Exist to Identify More Taxpayer Who Underreport Retirement Income***
			12/15/13	F-1, R-4, P-2, P-3. Convert the Simplified Method Worksheet to a tax form and require taxpayers to file it with their tax returns.
2012-30-030	Tax Compliance Initiatives	March 2012		***Actions Can Be Taken to Reinforce the Importance of Recognizing and Investigating Fraud Indicators During Field Audits***
			04/15/13	F-1, R-2, P-1. Reinforce the importance of involving a Fraud Technical Advisor in audits when there are indicators of fraud.
2012-40-050	Taxpayer Protection and Rights	May 2012		***Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service***
			09/15/13	F-1, R-2, P-1. Implement a process to ensure that while an identity theft case is being resolved, IRS notices and correspondence are not sent to the address listed on the identity thief's tax return.
			09/15/13	F-1, R-4, P-1. Ensure that taxpayers are notified when the IRS has received their identifying documents and/or it has opened their identity theft cases.
			07/15/13	F-1, R-6, P-1. Ensure that all quality review systems used by IRS functions and offices working identity theft cases are revised to select a representative sample of identity theft cases for quality review.
2012-13-070	Implementing Major Tax Law Changes	June 2012		***Affordable Care Act: While Much Has Been Accomplished, the Extent of Additional Controls Needed to Implement Tax-Exempt Hospital Provisions Is Uncertain***
			04/15/13	F-1, R-1, P-1. Establish a Memorandum of Understanding with the Department of Health and Human Services that takes into consideration when information for the annual report to Congress should be received and the proper format of the data to ensure it will be timely and usable for the report to Congress.
2012-40-071	Security for Taxpayer Data and Employees	June 2012		***Insufficient e-Services Controls May Put Taxpayer Information at Risk***
			10/15/13	F-1, R-2, P-1. Develop a confirmation program to verify that tax professionals are obtaining and retaining a signed power of attorney before submitting one through Disclosure Authorization.
			10/15/13	F-1, R-3, P-1. Reassess the policy for granting Disclosure Authorization access to tax professionals, especially unenrolled tax return preparers and registered tax return preparers.
			05/15/13	F-2, R-1, P-1. Ensure that IRS employees do not have unauthorized access to e-Services' online tools by periodically matching IRS personnel information to a listing of e-Services users.
2012-10-076	Achieving Program Efficiencies and Cost Savings	July 2012		***The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in Reduced Funds Available for Tax Administration***
			06/15/13	F-1, R-1, P-1. Ensure that all active reimbursable agreements are based on the full costs estimated for the services provided.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2012-42-080	Fraudulent Claims and Improper Payments	July 2012	 10/15/13 10/15/13 10/15/13 10/15/13	***There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft*** F-2, R-1, P-1. Develop a process to detect false Social Security benefit income and withholding claims at the time tax returns are processed using Form SSA-1099 information received from the Social Security Administration. F-3, R-1, P-1. Coordinate with responsible Federal agencies and banking institutions to develop a process to ensure that tax refunds issued via direct deposit to either a bank account or a debit card account are made only to an account in the taxpayer's name. F-3, R-2, P-1. Limit the number of tax refunds issued via direct deposit to the same bank account or debit card account in an attempt to reduce the potential for fraud. F-3, R-4, P-1. Work with the Department of the Treasury to ensure that financial institutions and debit card administration companies authenticate the identity of individuals purchasing a debit card. Also, prevent the direct deposit of tax refunds to debit cards issued or administered by financial institutions and debit card administration companies that do not take reasonable steps to authenticate individuals' identities.
2012-10-100	Achieving Program Efficiencies and Cost Savings	August 2012	 09/30/13	***Significant Additional Real Estate Cost Savings Can Be Achieved by Implementing a Telework Workstation Sharing Strategy*** F-1, R-3, P-1. Develop an overall strategy which links workstation sharing with the IRS's planning for future space needs.
2012-30-094	Tax Compliance Initiatives	September 2012	 10/15/13 09/15/13	***A Concerted Effort Should Be Taken to Improve Federal Government Agency Tax Compliance*** F-1, R-4, P-1. Ensure that Federal Agency Delinquency (FAD) Program employees adhere to procedures when processing delinquent Federal agency cases. F-1, R-5, P-1. Establish timeliness standards for FAD Program employees to follow when processing Federal agency delinquency cases.
2012-30-097	Tax Compliance Initiatives	September 2012	 08/15/13 12/15/13	***Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts*** F-1, R-1, P-2. Develop and implement additional procedures to ensure that all audits entering the Campus Case Processing operation with short statute expiration dates and large dollar assessment amounts are timely and accurately assigned and processed in accordance with applicable procedures. F-1, R-2, P-1. Conduct a cost-benefit analysis to determine whether it would be beneficial to develop and implement systematic controls to ensure that the required quick assessments are performed on large dollar audits.
2012-11-101	Fraudulent Claims and Improper Payments	September 2012	 07/15/14	***Deficiencies Continue to Exist in Verifying Contractor Labor Charges Prior to Payment*** F-1, R-2, P-1. Ensure the validity of all labor charges for the procurement in which TIGTA identified as having a total of $394,430 in unsupported labor charges. Actions should be initiated to recover any funds identified as being paid erroneously.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2012-20-112	Security for Taxpayer Data and Employees	September 2012		***An Enterprise Approach Is Needed to Address the Security Risk of Unpatched Computers***
			04/01/13	F-1, R-2, P-1. Take an enterprise-wide approach to buying tools to avoid redundancy and excessive cost, and develop an approach for using the data collected by the enterprise tools to support the patch management program.
			07/01/13	F-2, R-1, P-1. Update patch management policy to provide clear expectations for when patches must be installed based on criticality.
			07/01/13	F-2, R-3, P-1. Establish patch performance metrics in terms of setting compliance rate goals and measure them on a monthly basis.
			07/01/13	F-2, R-4, P-1. Implement enterprise-level responsibility to set and enforce IRS patch management policy to include deployment of enterprise patch management tools that automate patch installation and monitoring for like operating systems and software.
			09/01/13	F-2, R-5, P-1. Correct the issues with Altiris patch management tool reporting capabilities.
			07/01/13	F-3, R-1, P-1. Complete implementation of controls to ensure that unsupported operating systems are not putting the IRS at risk.

Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	**Result for TIGTA**
Access to Information Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.	As of March 31, 2013, there were no instances where information or assistance requested by the Office of Audit was refused.
Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.	As of March 31, 2013, there were no instances where significant recommendations were disputed.
Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	As of March 31, 2013, no significant management decisions were revised.
Audit Reports Issued in the Prior Reporting Period With No Management Response Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.	As of March 31, 2013, there were no prior reports where management's response was not received.
Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.	TIGTA's Office of Chief Counsel reviewed 116 proposed regulations and legislative requests during this reporting period.

Appendix II

Audit Products
October 1, 2012 - March 31, 2013

Audit Products	
Reference Number	**Report Title**
	October 2012
	N/A
	November 2012
2013-10-007	New Employees Are Being Hired More Quickly; However, Improvements Are Needed to Correct Some Hiring Monitoring Data (Reliability of Information: nine inaccurate job announcement records in the hiring database)
	December 2012
2013-40-011	Further Efforts Are Needed to Ensure That the Internal Revenue Service Prisoner File Is Accurate and Complete
2013-40-009	Many Taxpayers Are Still Not Complying With Noncash Charitable Contribution Reporting Requirements (Revenue Protection: $1,111,651,728 and 311,258 taxpayer accounts impacted; Reliability of Information: $87,966,530,511)
	January 2013
2013-1C-002	Independent Audit of the Contractor's Fiscal Year Ended June 30, 2006, Incurred Cost Proposal
2013-1C-003	Adequacy of Contractor's Initial Disclosure Statement and Revision 1
2013-10-010	Inadequate Aircard and Blackberry® Smartphone Assignment and Monitoring Processes Result in Millions of Dollars in Unnecessary Access Fees (Funds Put to Better Use: $5,933,485)
2013-10-017	Improvements Have Been Made to Address Human Capital Issues, but Continued Focus Is Needed
2013-40-014	Potentially Dangerous Taxpayer and Caution Upon Contact Cases Are Adequately Controlled, but Improvements in Training and Outreach Are Needed
2013-1C-004	Incurred Cost Proposal for Fiscal Year Ended June 30, 2007
2013-1C-005	Fiscal Year 2010 Floor Check Audit
2013-1C-006	Actions to Correct Deficiencies Related to Compliance With Defense Federal Acquisition Regulation Supplement Part 252, Accounting System Administration
2013-20-016	Significant Delays Hindered Efforts to Provide Continuous Monitoring of Security Settings on Computer Workstations (Inefficient Use of Resources: $1,151,939)
2013-10-019	Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2012 Annual Accounting of Drug Control Funds and Related Performance
2013-10-018	Fraud and Abuse Are Addressed in the Indian Tribal Sector, but Performance Objectives and Measures Are Needed to Assess Program Effectiveness
2013-40-015	Improper Payments Elimination and Recovery Act Risk Assessments of Revenue Programs Are Unreliable
	February 2013
2013-1C-008	Application of Agreed-Upon Procedures

2013-40-022	Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved
2013-30-021	The Compliance Assurance Process Has Received Favorable Feedback, but Additional Analysis of Its Costs and Benefits Is Needed
2013-40-024	The Internal Revenue Service Was Not in Compliance With All Requirements of the Improper Payments Elimination and Recovery Act for Fiscal Year 2012
2013-20-023	Improvements Are Needed to Ensure the Effectiveness of the Privacy Impact Assessment Process
	March 2013
2013-30-020	Actions Can Be Taken to Reinforce the Importance of Recognizing and Investigating Fraud Indicators During Office Audits (Increased Revenue: $29,000,000)
2013-1C-001	Independent Audit of the Contractor's Civil Information Technology Fiscal Year Ended March 31, 2006, Final Incurred Cost Proposal (Questioned Costs: $327,845)
2013-40-029	Assessment of the Internal Revenue Service's Interpretation of Section 1302 of the Recovery Act: Qualifying Advanced Energy Project Credit
2013-30-027	Processing of Foreign Currency Check Payments Is Causing Unnecessary Taxpayer Burden (Taxpayer Burden: $315,245; 3,905 foreign currency payments converted at a lower exchange rate; and 870 foreign currency payments not processed timely or correctly)
2013-1C-026	Supplemental Independent Audit of the Contractor's Civil Information Technology Final Incurred Cost Proposal for Fiscal Year Ending March 31, 2006
2013-30-028	Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program
2013-20-030	Integrated Financial System Updates Are Improving System Security, but Remaining Weaknesses Should Be Addressed
2013-43-033	Affordable Care Act: Implementation of Key Information Reporting Provisions
2013-23-034	Affordable Care Act – The Income and Family Size Verification Project: Improvements Could Strengthen the Internal Revenue Service's New Systems Development Process
2013-40-035	Interim Results of the 2013 Filing Season

Appendix III

TIGTA's Statutory Reporting Requirements

TIGTA issued four audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2013, TIGTA will complete its 15th round of statutory reviews that are required annually by the IRS Restructuring and Reform Act of 1998 (RRA 98). It will also complete its annual reviews of the Federal Financial Management Improvement Act of 1996 (FFMIA), the Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The following table reflects TIGTA's FY 2013 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.	In fieldwork phase.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	Requires TIGTA to evaluate the IRS's compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.	In fieldwork phase.
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	In report writing phase.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Extensions of the Statute of Limitations for Assessment of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501(c)(4)(B)	Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.	In fieldwork phase.
Levies I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.	In fieldwork phase.
Collection Due Process I.R.C. § 7803(d)(1)(A)(iii) and (iv)	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.	In fieldwork phase.
Seizures I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.	In report writing phase.
Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation I.R.C. § 7803(d)(1)(A)(v)	An evaluation of the IRS's compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.	In fieldwork phase.
Disclosure of Collection Activities With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)	Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	Planned but not started.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each of its *Semiannual Reports to Congress* the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by the IRS or TIGTA from taxpayers, IRS employees and other sources.	Statistical results on the number of taxpayer complaints received are shown on page 57.
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.	In fieldwork phase.
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).	In fieldwork phase.
Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)	Requires TIGTA to evaluate the IRS's adequacy and security of its technology.	***Information Technology Reviews:*** Ref. No. 2013-20-030, March 2013 Ref. No. 2013-23-034, March 2013 ***Security Reviews:*** Ref. No. 2013-20-016, January 2013 Ref. No. 2013-20-023, February 2013

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Federal Financial Management Improvement Act of 1996 (FFMIA) 31 U.S.C. § 3512	Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements or the establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.	In fieldwork phase.
Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled *Drug ControlAccounting*, dated May 1, 2007.	Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.	**Ref. No. 2013-10-019, January 2013** Nothing came to TIGTA's attention that caused TIGTA to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report were not fairly presented in all material respects in accordance with ONDCP-established criteria.

Appendix IV

Section 1203 Standards

In general, the Commissioner of Internal Revenue shall terminate 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.


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Appendix V

Implementing Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act Inspector General Peer Review Activity October 1, 2012 Through March 31, 2013

Last Peer Review Conducted on TIGTA Office of Investigations

No peer reviews have been conducted during this six-month reporting period.


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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 October 1, 2012 through March 31, 2013. 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.

HUMAN CAPITAL OFFICE

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

April 18, 2013

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Phyllis Brown Phyllis Brown
Director, Workforce Relations Division

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

In response to your memorandum on February 12, 2013, to the Commissioner, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period October 1, 2012, to March 31, 2013.

- Report of Employee Misconduct by Disposition Groups;
- Report of Employee Misconduct – National Summary; and,
- Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS).

The attached tables contain information concerning alleged misconduct reported to Internal Revenue Service (IRS) managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of March 31, 2013. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).

The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 67 §1203 allegations and removed seven employees. Five employees retired or resigned prior to a final administrative action by management. In one of the removals IRS managers considered information forwarded in a TIGTA investigation. The Commissioner mitigated proposed removals in 18 cases.

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If you have any questions, please contact me or a member of your staff may contact Julia Caldwell at 202-622-6383.

Attachments (3)

cc: Acting, Commissioner
Deputy Commissioner for Services and Enforcement
Deputy Commissioner for Operations Support
National Taxpayer Advocate
Executive Director, Equity, Diversity and Inclusion
Chief, Communications & Liaison
Associate Chief Counsel (GLS)

Reports of Employee Misconduct for the Period October 1, 2012 through March 31, 2013 Summary by Disposition Groups (Tables Provided by the IRS)

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Total
Removal (Probation Period Complete)	25	42	7	0	**74**
Probation/Separation	1	36	0	2	**40**
Separation of Temporary Employees	0	10	0	1	**11**
Resign., Ret., Etc. (SF 50 Noted)	4	11	5	1	**21**
Resign., Ret., Etc. (SF 50 Not Noted)	29	81	25	4	**139**
Susp., 14 Days or Less	54	140	79	1	**274**
Susp., More Than 14 Days	27	38	21	1	**87**
Indefinite Suspension	2	3	0	0	**5**
Reprimand	54	218	151	14	**437**
Admonishment	55	141	271	22	**489**
Written Counseling	40	224	136	0	**400**
Oral Counseling	0	75	13	0	**88**
A D: In Lieu of Reprimand	7	36	10	0	**53**
A D: In Lieu of Suspension	17	46	27	1	**91**
Clearance Letter	78	91	3	0	**172**
CWA Cautionary LTR	165	163	102	80	**510**
CWA LTR	61	101	25	21	**208**
Termination for Abandonment of Position	0	11	0	0	**11**
Case Suspended Pending Employee RTD	0	0	0	0	**0**
Closed – Supplemental Requested	0	0	0	0	**0**
Forwarded to TIGTA	0	31	0	0	**33**
Total	**619**	**1498**	**878**	**148**	**3143**

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

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

This report is being produced in accordance with 26 U.S.C. 7803(d)(2) and §4(a)2 of Treasury Delegation Order 115-01, January 14, 1999. Extract Date: Wednesday, April 3, 2013

Reports of Employee Misconduct for the Period October 1, 2012 through March 31, 2013 National Summary (Tables Provided by the IRS)

Inventory Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Ending Inventory
			Conduct Issues	Cases Merged With Other Cases	Non-Conduct Issues	
Administrative Case	768	1990	1946	44	14	754
Employee Character Investigation	61	226	190	4	0	93
Employee Tax Compliance Case	531	1660	1439	218	0	534
TIGTA Report of Investigation	520	744	737	15	0	512
Total	**1880**	**4620**	**4312**	**281**	**14**	**1893**

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

TIGTA Investigations (ROI) - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred a Report of Investigation (ROI) to IRS for appropriate action.

Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.

Background Investigations - Any matter involving an National Background Information Center investigation into an employee's background that is referred to management for appropriate action.

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: Wednesday, April 3, 2013

Summary of Substantiated I.R.C. Section 1203 Allegations Recorded in ALERTS for the Periods October 1, 2012 through March 31, 2013 (Tables Provided by the IRS)

§ 1203 Violation	Removals	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated	In Personnel Process	Total
§ 1203(b)(10) Threat of Audit/Personal	0	0	0	0	0	0	**0**
§ 1203(b)(1) Willfull Unauth Seiz TP	0	0	0	0	0	0	**0**
§ 1203(b)(2) False Statement Under Oath	0	0	0	0	0	0	**0**
§ 1203(b)(4) Concealed Work Error	1	0	0	0	0	0	**1**
§ 1203(b)(5) Assault or Battery	0	0	0	0	0	0	**0**
§ 1203(b)(6) IRC/IRM/Reg Viol-Retal	0	0	0	0	0	0	**0**
§ 1203(b)(8) Willful Untimely Return	3	4	0	0	12	21	**41**
§ 1203(b)(9) Willful Understated Tax	3	0	0	0	6	15	**25**
Total	**7**	**5**	**0**	**1**	**18**	**36**	**67**

Source: Automated Labor and Employee Relations Tracking System (ALERTS) and 1203 Review Board records.

The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third party appeal.

Columns containing numbers of two or fewer and protected by I.R.C. Section 6103 are annotated with a 0.
Extract Date: Wednesday, April 3, 2013

Glossary of Acronyms

ACA	Affordable Care Act
ACTC	Additional Child Tax Credit
ALERTS	Automated Labor and Employee Relations Tracking System
CAP	Compliance Assurance Process
CY	Calendar Year
EITC	Earned Income Tax Credit
FACTA	Foreign Account Tax Compliance Act
FAD	Federal Agency Delinquency
FEVS	Federal Employee Viewpoint Survey
FFMIA	Federal Financial Management Improvement Act of 1996
FTE	Full-Time Equivalent
FY	Fiscal Year
I&E	Inspections and Evaluations
I.R.C.	Internal Revenue Code
IFSV	Income and Family Size Verification
IG Act	Inspector General Act of 1978
IPERA	Improper Payment Elimination and Recovery Act of 2010
IRS	Internal Revenue Service
LB&I	Large Business and International
NTEU	National Treasury Employees Union
OA	Office of Audit
OI	Office of Investigations

OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
OPM	Office of Personnel Management
PIA	Privacy Impact Assessment
PIAMS	Privacy Impact Assessment Management System
PII	Personally Identifiable Information
PMP	Performance Management Program
PTIN	Preparer Tax Identification Number
ROI	Report of Investigation
RRA 98	IRS Restructuring and Reform Act of 1998
SB/SE	Small Business/Self-Employed
SSA	Social Security Administration
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year
U.S.	United States
W&I	Wage & Investment


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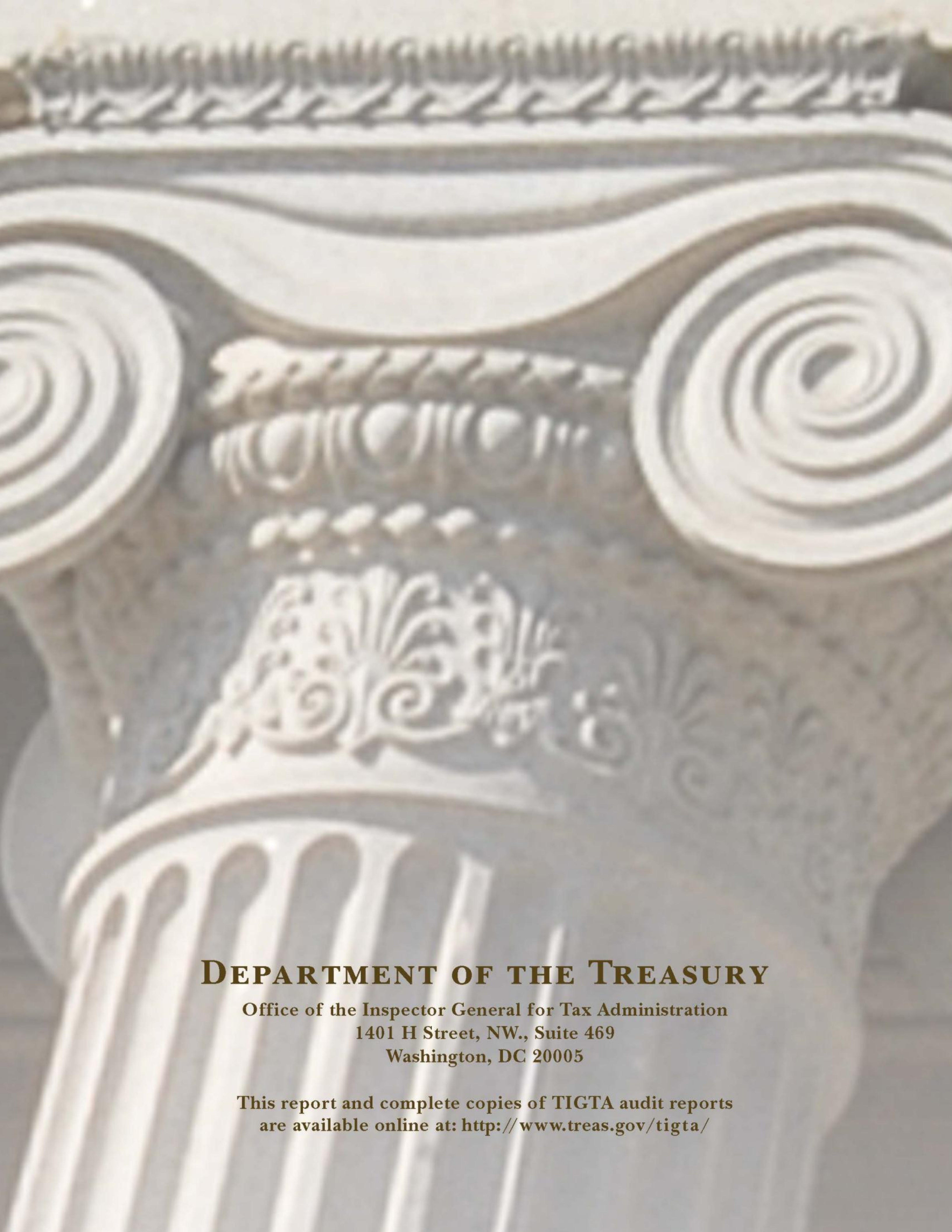

DEPARTMENT OF THE TREASURY

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