



Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2015– MARCH 31, 2016

INTERNAL
REVENUE
SERVICE

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION (TIGTA)

TIGTA's VISION

Maintain a highly skilled, proactive, and diverse Inspector General organization dedicated to working in a collaborative environment with key stakeholders to foster and promote fair tax administration.

TIGTA's MISSION

Provide quality professional audit, investigative, and inspection and evaluation services that promote integrity, economy, and efficiency in the administration of the Nation's tax system.

TIGTA's CORE VALUES

Integrity – Maintain the highest professional standards of integrity, personal responsibility, independence, objectivity, and operational excellence in pursuit of TIGTA's mission.

Organizational Innovation – Model innovative practices in organizational structure, operational programs and processes, audit, investigative, and inspection and evaluation methodologies, and the application of advanced information technology.

Communication – Achieve effective organizational approaches and solutions by encouraging open, honest, and respectful communication among TIGTA's executives, employees, offices, and functions, as well as between TIGTA and its external stakeholders.

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

Commitment to Collaboration – Establish and maintain collaborative and professional relationships with other Government and non-Government stakeholders.





Inspector General's Message to Congress

It is my privilege to submit this Semiannual Report to Congress of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of October 1, 2015 to March 31, 2016. I believe that this summary of some of the most noteworthy audits, investigations, and inspections and evaluations conducted by TIGTA during this reporting period effectively demonstrates our steadfast commitment to the mission of providing oversight of the Internal Revenue Service (IRS) and protecting the integrity of Federal tax administration.



During this reporting period, TIGTA's combined audit and investigative efforts have resulted in the recovery, protection, and identification of monetary benefits totaling more than \$2.3 billion. In addition, TIGTA's Office of Audit has completed 29 audits, and its Office of Investigations has completed 1,381 investigations.

Tax-related scams and schemes continue to present a major challenge to the Nation's tax administration system. The IRS telephone impersonation scam has surged to the top of the IRS's "Dirty Dozen" tax scams and remains one of TIGTA's highest investigative priorities. Criminals impersonating employees of the IRS or the Department of the Treasury and demanding that taxpayers send them money have claimed victims in every State. As of March 31, 2016, more than 5,700 taxpayers have lost a reported \$31 million of their hard-earned money.

Although investigations of scams of this scope and complexity are not typically resolved quickly, we are making significant progress in our efforts to bring these criminals to justice. By working with telephone companies, TIGTA has been successful in shutting down 431 of 574 telephone numbers used by the scammers. We have also worked closely with other Federal agencies, media outlets, State and local governments, and nongovernmental organizations to warn the public about the scam, and we are conducting extensive public outreach efforts of our own, including the posting of public service announcements in both English and Spanish on YouTube and on the IRS's website.

Tax-related identity theft presents another stubborn challenge to fair and effective tax administration, and is especially reprehensible when it involves IRS employees who abuse their positions to access the sensitive and personal information of taxpayers.

TIGTA proactively monitors the activities of IRS employees who have access to taxpayer accounts for any indication of unauthorized accesses that may be part of a



fraud scheme. This report highlights four cases in which TIGTA's investigative efforts have led to criminal charges against IRS employees involved in such activities. In three of the four cases, the defendant-IRS employees were found or pled guilty; a trial is still pending in the fourth.

Because the IRS continues to play a significant role in the administration of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (Affordable Care Act),¹ a special section of this report is devoted to our audit work to assess these IRS efforts.

Other noteworthy audits include a follow-up audit to our 2013 report on the IRS's questionable conference expenditures. In this new report, our auditors found that the IRS had addressed all nine of the recommendations that we made in our 2013 report, and we made several additional recommendations for improvement.

TIGTA also issued an important report on some of the more significant challenges encountered by the IRS since the adoption by Congress of the Internal Revenue Service Restructuring and Reform Act of 1998 and made a number of recommendations to assist the IRS in addressing those challenges.

As always, my dedicated, hardworking employees and I are committed to ensuring that the IRS carries out its responsibilities to the American taxpayer as effectively and efficiently as possible and to fulfilling our own mission to promote and protect the integrity of Federal tax administration.

Sincerely,

A handwritten signature in black ink that reads "J. Russell George".

J. Russell George
Inspector General

¹ Pub. L. No. 111-152, 124 Stat. 1029 (codified in scattered titles of the U.S.C.).



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TIGTA's Profile

The Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of matters of the Department of the Treasury (Treasury Department or Department) involving activities of the Internal Revenue Service (IRS), 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 recommending strategies for 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).

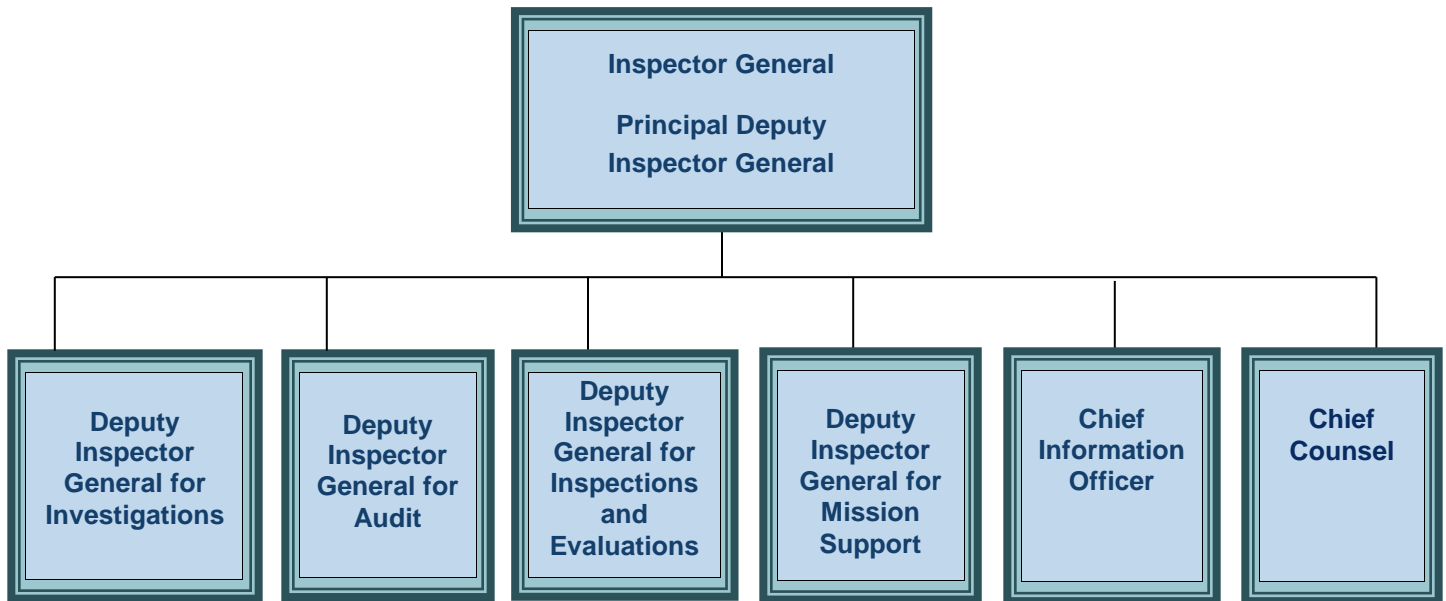
TIGTA provides audit, investigative, and inspection and evaluation services that promote economy, efficiency, and integrity in the administration of the Internal Revenue laws.

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** 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 has all of the authorities granted under the Inspector General Act of 1978, as amended (Inspector General Act).² In addition to the standard authority granted to Inspectors General, TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA also reports potential criminal violations directly to the Department of Justice when TIGTA deems that it is appropriate to do so. TIGTA and the Commissioner of Internal Revenue (Commissioner or IRS Commissioner) have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the Internal Revenue laws. In addition, the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)³ amended the Inspector General Act to give TIGTA the statutory authority to carry firearms, execute search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Internal Revenue Code Section (§) 7608(b)(2).

² 5 U.S.C. app. 3 (amended 2008).

³ 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., 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:

Former IRS Special Agent Sentenced to More Than Five Years in Prison for Tax Refund Scheme

Former IRS Special Agent Donald Centreal Smith was sentenced in the Northern District of Alabama on November 10, 2015, for his role in a tax refund scheme.⁴ Smith entered a guilty plea to conspiracy, wire fraud, and aggravated identity theft in June 2015.⁵ His coconspirator, Gary Gene Collins, pled guilty to conspiracy and wire fraud in June 2015⁶ and was sentenced on November 18, 2015.⁷

According to the court documents, Smith began his employment with IRS Criminal Investigation (IRS-CI) as a trainee in 2005 and became a special agent with IRS-CI in 2007. He was assigned to the Birmingham, Alabama, field office. Collins, an Alabama resident, and Smith were friends. From about September 2011 through October 2013, Smith and Collins unlawfully conspired with each other and devised a scheme to make fictitious and fraudulent claims in the form of income tax returns filed with the IRS.⁸

Red Alliance, LLC—a business used by Smith and Collins to carry out their scheme—was registered with the Secretary of State in Delaware in April 2012. Smith and Collins then opened two bank accounts at Regions Bank, one in the name of Red Alliance and another in the name of Red Alliance d/b/a True Tax Enterprise.⁹

Between June 2012 and October 2012, Smith and Collins electronically filed approximately 19 fraudulent personal income tax returns with the IRS, knowingly using the identification of others without lawful authority. Most of the Personally Identifiable Information (PII)¹⁰ contained in the false tax returns came into Smith's possession by virtue of his employment as a special agent.

Specifically, Smith had obtained this PII several years earlier through investigations involving tax preparer fraud that he had conducted and prosecuted in his capacity as an IRS special agent. Smith retrieved the information from those criminal case files, shared it with Collins, and used it to prepare and file most of the false and fraudulent personal tax

⁴ N.D. Ala. Judgment Smith filed Nov. 16, 2015.

⁵ N.D. Ala. Plea Agr. Smith filed June 15, 2015.

⁶ N.D. Ala. Plea Agr. Collins filed June 25, 2015.

⁷ N.D. Ala. Judgment Collins filed Nov. 19, 2015.

⁸ N.D. Ala. Plea Agr. Smith filed June 15, 2015; N.D. Ala. Plea Agr. Collins filed June 25, 2015.

⁹ N.D. Ala. Indict. filed Apr. 30, 2015.

¹⁰ PII is any information that, by itself or in combination with other information, may be used to uniquely identify an individual. Examples of PII are names, addresses, and Social Security Numbers.



returns.¹¹ The false returns directed the refunds to be deposited into the two specific bank accounts earlier established by Smith and Collins at Regions Bank, which had been opened with Collins's Social Security Number (SSN), date of birth, and home address.¹²

Smith and Collins requested, through the filing of these 19 false claims, Federal tax refunds totaling \$65,308.00. Before the scheme was detected, the IRS paid \$12,908.94 in refunds, which Smith and Collins converted to their own use.¹³

One of the identity-theft victims attempted to file her 2011 return and was informed that a return had already been submitted in her name using her personal information, and that the false return generated a refund payment, which had been deposited into an account at Regions Bank. The victim went to Regions Bank and reported the fraud to the bank security officer. The security officer investigated the account and discovered that two bank accounts were receiving refunds in the name of Red Alliance and that the account holders were Smith and Collins. The security officer placed a "no post" on the accounts, preventing any money from being withdrawn.¹⁴

Collins called Regions Bank after discovering the "no post" order on the accounts and spoke with the bank security officer. The security officer agreed to remove the "no post" if Collins provided a copy of the tax return filed on behalf of the reporting victim. The security officer never heard from Collins again. Collins also made several calls to Smith that same day.¹⁵

On two subsequent dates following Collins's contact with Regions Bank, Smith searched a restricted and confidential Treasury Department database looking for Bank Secrecy Act information and records relating to himself, Red Alliance, the Employer Identification Number associated with Red Alliance, and the reporting identity-theft victim. A search of Smith's IRS workspace revealed handwritten notes associated with 18 of the fraudulent returns and a detailed spreadsheet containing the PII of individuals identified during the two prior criminal tax cases Smith had investigated.¹⁶

Smith was sentenced to a total of 61 months in prison, followed by three years of supervised release.¹⁷ Collins was sentenced to three years of supervised probation, to include nine months of home detention.¹⁸ Smith and Collins are jointly and severally responsible for restitution to the IRS in the amount of \$12,908.94, and both are prohibited from preparing tax returns other than their own during the periods of their sentence and supervised release.¹⁹

¹¹ N.D. Ala. Plea Agr. Smith filed June 15, 2015; N.D. Ala. Plea Agr. Collins filed June 25, 2015.

¹² N.D. Ala. Indict. filed Apr. 30, 2015.

¹³ N.D. Ala. Plea Agr. Smith filed June 15, 2015; N.D. Ala. Plea Agr. Collins filed June 25, 2015.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ N.D. Ala. Plea Agr. Smith filed June 15, 2015.

¹⁷ N.D. Ala. Judgment Smith filed Nov. 16, 2015.

¹⁸ N.D. Ala. Judgment Collins filed Nov. 19, 2015.

¹⁹ N.D. Ala. Judgment Smith filed Nov. 16, 2015; N.D. Ala. Judgment Collins filed Nov. 19, 2015.



Three to Seven Years in Prison for Former IRS Employee and Coconspirators

An IRS employee and three coconspirators were sentenced in the Eastern District of California²⁰ for their roles in a \$1.4 million identity-theft conspiracy.²¹ Former IRS employee Viririana Hernandez was sentenced on November 2, 2015.²² Coconspirators Daniel Miranda, Jr. and Roberto Martinez, Jr. were each sentenced on December 7, 2015.²³ A fourth conspirator, Lilliana Gonzales, was sentenced on February 16, 2016.²⁴ All four pled guilty between August 2015 and September 2015.²⁵

Hernandez had been employed by the IRS in Fresno, California, since 2006. During her employment, she had worked in a variety of administrative positions, some allowing her access to personnel files on other IRS employees.²⁶

According to the court documents, Hernandez, Miranda, Martinez, and Gonzales knowingly engaged in an identity-theft conspiracy using the personal information of victims obtained through various methods. From at least June 2012 through at least January 2014, the four conspired to defraud retail merchants, cardholders, and banks to obtain money, services, and property under fraudulent pretenses. As part of the conspiracy, Hernandez mined IRS databases for personal information, such as dates of birth and SSNs belonging to current and former IRS workers, and made such information available for use by the other conspirators. By October 2012, Miranda possessed the personal information of approximately 288 current and former IRS employees. The conspirators also obtained personal information through a number of employment applications for a franchise restaurant.²⁷

Once in possession of some initial personal information, the conspirators sought to obtain additional information, including details of credit cards and other financial accounts. They then used this personal information to fraudulently open new financial accounts in the victims' names or to fraudulently gain access to the victims' existing financial accounts, often by adding themselves as authorized users. The conspirators made myriad fraudulent purchases using this method of access to their victims' bank and store credit accounts. They also used their wrongful access to get cash advances from ATMs and in-person bank transactions. On at least two occasions, the victim's personal data, including name, date of birth, address, and specific store credit account information, were sent via text to IRS employee Hernandez. On one such occasion, the same day that she received the victim's account information by text, Hernandez used it to purchase three Gucci watches at Macy's, totaling \$3,348.89.²⁸

²⁰ E.D. Cal. Criminal Docket USA v. Miranda et al filed July 17, 2014.

²¹ E.D. Cal. Plea Agr. Miranda filed June 5, 2015.

²² E.D. Cal. Judgment Hernandez filed Nov. 4, 2015.

²³ E.D. Cal. Judgment Miranda filed Dec. 11, 2015; E.D. Cal. Judgment Martinez filed Dec. 11, 2015.

²⁴ E.D. Cal. Judgment Gonzales filed Feb. 24, 2016.

²⁵ E.D. Cal. Criminal Docket USA v. Miranda et al filed July 17, 2014.

²⁶ E.D. Cal. Indict. filed July 17, 2014.

²⁷ *Id.*

²⁸ *Id.*



To avoid detection and maximize the amount of money, goods, and services they could obtain, the conspirators often made numerous purchases on the accounts in a short amount of time before their fraud was discovered and the accounts were suspended. They also used the victims' accounts to purchase gift cards or merchandise that was later returned for store credit. This allowed them to continue to use gift cards or store credit even if a victim had canceled access to the credit card.²⁹

In total, the conspirators used the means of identification of more than 250 people without lawful authority and sought to obtain at least \$1.4 million in money, services, and property from merchants, cardholders, and financial institutions.³⁰

Hernandez was sentenced to 54 months in prison, Miranda to 94 months, Martinez to 36 months, and Gonzales to 60 months. Each will be on supervised release for three years following their imprisonment and are jointly and severally liable for restitution in the amount of \$125,884.³¹

²⁹ *Id.*

³⁰ E.D. Cal. Plea Agr. Miranda filed June 5, 2015.

³¹ E.D. Cal. Judgment Hernandez filed Nov. 4, 2015; E.D. Cal. Judgment Miranda filed Dec. 11, 2015; E.D. Cal. Judgment Martinez filed Dec. 11, 2015; E.D. Cal. Judgment Gonzales filed Feb. 24, 2016.



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

Continued Refinement of the Return Review Program Identity-Theft Detection Models Is Needed to Increase Detection

Identity theft continues to be a serious and evolving issue that has a significant impact on tax administration. In February 2009, the IRS began development of the Return Review Program (RRP) to replace its current fraud detection system. The IRS conducted a pilot test of the RRP to assess its effectiveness in identifying potential identity-theft tax returns during Processing Year (PY) 2014 and, based on the positive pilot results, expanded the use of the RRP's identity-theft detection for PY 2015.

The RRP provides the IRS with the ability to change or adjust selection models throughout the processing year. For example, the RRP provides the capability to change models to identify new, or variations of existing, identity-theft schemes as they emerge.

The RRP pilot successfully identified tax returns involving identity theft that were not identified by other fraud detection systems. However, TIGTA's analysis showed that 54,175 confirmed identity-theft tax returns with refunds totaling more than \$313 million were identified by other existing fraud-detection systems, but not by the RRP. As the IRS continues to develop the RRP, it needs to ensure that the RRP will recognize identity-theft cases currently being identified by existing systems, as well as other identity-theft cases not currently being identified.

In response to TIGTA's identification of large volumes of potentially fraudulent tax returns involving tax refunds deposited into the same account, the IRS implemented a new process to limit the number of deposits (three) to a single bank account. The IRS automatically converts the requests for electronic deposits to paper checks when the limit of refunds to a single bank account or prepaid debit card has been reached. However, TIGTA's review of this process identified 5,516 direct deposits totaling almost \$13.5 million that were not converted to paper refund checks due to programming errors. The IRS addressed two of the programming errors and plans to correct the remaining error by August 2016.

Also, additional processes are needed for processing checks returned as undeliverable. For example, TIGTA identified 113 tax refunds totaling \$354,109 that had been returned as undeliverable, for which the IRS did not reissue a refund check as required after a taxpayer has contacted the IRS and made an address change.

TIGTA made several recommendations, including that the IRS: 1) ensure that the RRP selects identity-theft tax returns identified by other fraud detection systems; and 2) develop additional processes to resolve taxpayer accounts when checks are returned as undeliverable or remain uncashed. IRS management agreed with three of the four



recommendations and partially agreed with the remaining recommendation.

Reference No. 2016-40-008

Revising Tax Debt Identification Programming and Correcting Procedural Errors Could Improve the Tax Refund Offset Program

The IRS maintains a file that contains information about Federal debts owed by taxpayers. Through this program, more than \$6.8 billion in individual tax refunds were offset to pay outstanding individual and business tax debts in Tax Year (TY) 2013.

The IRS's current process does not effectively identify sole proprietors with business tax debt. However, TIGTA found that the IRS could use its data to increase its identification of individuals with business tax debt. Using information the IRS captures and maintains from Form SS-4, *Application for Employer Identification Number*, TIGTA identified 53,672 individual taxpayers who received approximately \$74.5 million in tax refunds in TY 2013, which the IRS could have offset against outstanding tax debts on the taxpayers' associated business tax accounts.

In addition, the IRS needs to consistently apply tax account freezes to ensure that refunds are offset to pay associated tax liabilities on the IRS's Non-Master File (NMF) system. TIGTA identified 487 individual and 29 business taxpayers that received more than \$2.9 million in tax refunds for TY 2013 that should have been offset to pay outstanding NMF tax debts.

Finally, the IRS incorrectly offset individual tax refunds to pay the tax debts of Limited Liability Companies (LLC). TIGTA identified 502 Tax Year 2013 individual tax refunds totaling approximately \$780,474 that were incorrectly applied to outstanding tax debts on LLC business tax accounts. The IRS stated that its current computer programming did not incorporate criteria to identify these cases.

TIGTA recommended that the IRS:

- Revise its processes to identify individual tax refunds to offset against business tax debts;
- Develop a system to ensure that account freezes are not erroneously reversed;
- Ensure that a manual freeze is input on a primary taxpayer's account when the secondary taxpayer's account has an outstanding tax debt; and
- Develop a process to ensure that offset freezes are placed on all individual and business tax accounts when there is an outstanding debt on the NMF account.

TIGTA also recommended that the IRS:

- Revise computer programming to ensure that credit elects are offset against any associated tax debt on the NMF;
- Use the LLC indicator on the business tax account to ensure that an individual tax refund is not offset against the associated LLC's business tax debt; and



- Identify the incorrect offsets totaling \$780,474 from the 502 LLC accounts and transfer them back to the individual taxpayer accounts.

IRS management agreed with all of TIGTA's recommendations.

Reference No. 2016-40-028





Promote the Economy, Efficiency, and Effectiveness of Tax Administration

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

The IRS's implementation of audit recommendations results in:

- Cost savings;
- Increased or protected revenue;
- Protection of taxpayers' rights; and
- More efficient use of resources.

Each year, TIGTA identifies and recommends strategies for addressing the IRS's major management and performance challenges. The Office of Audit 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 IRS Commissioner, and other key stakeholders.

Audit Emphasis Areas for October 2015 Through March 2016

- Tax Compliance Initiatives.
- Fraudulent Claims and Improper Payments.
- Achieving Program Efficiencies and Cost Savings.

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

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 budgetary constraints continue to impact the IRS's efforts to enforce tax compliance. The decline in the number of IRS personnel has



contributed to a decrease in the number of examinations, and as a result the Federal Government stands to lose billions of dollars in revenue.

Direct Debit Installment Agreement Procedures Addressing Taxpayer Defaults Can Be Improved

Direct debit installment agreements (DDIA) give taxpayers a convenient way to make payments on their installments while eliminating the need for checks, paper forms, and IRS resources to process the payments each month. During Fiscal Year (FY) 2014, more than 500,000 taxpayers entered into DDIAs, and approximately \$2.8 billion was collected. Revising DDIA procedures to automatically add new liabilities to existing DDIAs could increase revenue collection and reduce taxpayer burden.

In order to maintain a DDIA, taxpayers must pay any new tax liability when due or the DDIA will systemically lapse into default. When the DDIA is in default, the IRS stops automatic collection from the taxpayer's financial accounts. TIGTA found that when DDIA defaults are due to a new tax liability, most taxpayers want to include the new balance due into their existing DDIA. In addition, the IRS has a procedure that eliminates the need to default the DDIA if a taxpayer incurs a new tax liability, but it is used only when taxpayers request it.

As a result, systemic DDIA defaults increased taxpayer burden because taxpayers incurred additional interest on their unpaid balances. In addition, revenue collection was suspended until the DDIAs were restructured, and some DDIAs were not reestablished.

TIGTA recommended that the IRS:

- Consider establishing systemic programming to allow DDIA taxpayers who incur a new unpaid tax liability to absorb it into the current agreement without stopping the automatic payment in qualifying situations;
- Provide taxpayers with information on Form 9465, *Installment Agreement Request*, and Form 433-D, *Installment Agreement*, as to how they can avoid a default of their DDIA in the event that they incur a new unpaid liability; and
- Establish procedures for taxpayers who cannot absorb their liabilities in existing DDIAs, so that direct debit payments do not stop while the DDIA is suspended and the IRS actively addresses the new balance due.

IRS management agreed that systemically adding a new tax liability to an existing DDIA could save time and collect additional revenue, but did not commit to ensuring that qualifying new liabilities would be absorbed into existing DDIAs or to discontinuing the practice of stopping automatic collection when the DDIA is suspended due to a new liability. Management did agree to provide taxpayers with more information on how to avoid default. TIGTA believes that all of the recommendations would benefit the IRS and taxpayers.

Reference No. 2016-30-011



Fraudulent Claims and Improper Payments

The Office of Management and Budget describes an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. The Improper Payment Information Act (IPIA) of 2002³² requires Federal agencies, including the IRS, to estimate the amount of improper payments it has made and report to Congress annually on the causes of, and the steps taken to reduce, improper payments. The Improper Payment Elimination and Recovery Act of 2010³³ amended the IPIA by strengthening agency reporting requirements and redefining significant improper payments.

Improvements Are Needed to Better Ensure Refunds Claimed on Potentially Fraudulent Tax Returns Are Not Erroneously Released

The IRS's Return Integrity and Compliance Services organization is responsible for identifying, evaluating, and preventing the issuance of improper refunds. This mission includes the protection of revenue by identifying potentially fraudulent tax returns and verifying the accuracy of reported income and withholding information. The IRS reported that, as a result of confirmed identity theft or fraud during Calendar Year 2014, the Integrity and Verification Operations function prevented the payment of more than \$15 billion in refunds for more than 2 million tax returns that otherwise would have been paid.

TIGTA identified that, because of a programming error, more than \$27 million in refunds were erroneously issued for 13,043 TY 2013 tax returns. The programming error was overriding the IRS's two-week processing delay on some refund tax returns that were identified by the IRS as potentially fraudulent. These were tax returns that the IRS Examination function also identified as claiming a questionable tax credit. The portion of the refund that was not reviewed by the Examination function was being erroneously issued before the IRS could complete its verification of income and withholding.

TIGTA also identified that ineffective monitoring of potentially fraudulent tax returns resulted in the erroneous release of refunds before the required verification. TIGTA identified 3,910 TY 2013 tax returns selected for verification with no indication that tax examiners actually did verify the returns. The IRS issued refunds totaling more than \$19 million for these tax returns. Name mismatches in IRS systems prevented refund holds from posting to tax accounts. Refund holds were either not set correctly or not functioning as intended.

As a result, TIGTA recommended that the IRS:

- Correct the programming that is erroneously overriding the two-week return processing delay needed to ensure that refunds are not issued prior to screening and verification of the tax returns;

³² Pub. L. No. 107-300, 116 Stat. 2350.

³³ Pub. L. No. 111-204, 124 Stat. 2224.



- Develop a periodic reconciliation process to ensure that refunds associated with identified potentially fraudulent tax returns are not erroneously released;
- Develop a process to ensure that tax examiners verify a potentially erroneous refund claimed by a taxpayer within the refund hold period or place an unexpiring refund hold on the taxpayer's account until verification can be completed as required; and
- Identify why refund holds placed on some accounts are not delaying processing of the tax returns and address the causes.

IRS management agreed with all of TIGTA's recommendations.

Reference No. 2016-40-006

Improved Tax Return Filing and Tax Account Access Authentication Processes and Procedures Are Needed

The increasing number of data breaches in the private and public sectors means more personal information than ever before is available to unscrupulous individuals. Much of these data are detailed enough to enable the circumvention of most authentication processes. As such, it is critical that the methods the IRS uses to authenticate identities ensure a high level of confidence that tax information and services are provided only to individuals who are entitled to receive them.

Although the IRS recognizes the growing challenge that it faces in establishing effective authentication processes and procedures, it has not established a Service-wide approach to managing its authentication needs. The IRS should establish a function that is optimally placed in the organization and provide it with the authority needed to ensure that authentication policies and procedures are consistent and comply with Government information security standards Service-wide.

The IRS recognizes that it must establish a Service-wide approach to managing its authentication needs and has therefore established two groups that focus on taxpayer authentication. However, neither of these groups provides for cross-functional management, oversight, or continuing evaluation of the IRS's existing authentication processes to ensure that they address current and future needs.

In addition, authentication methods used for current online services do not comply with Government information security standards. For example, TIGTA's analysis of the e-Authentication processes used to authenticate users of the IRS online Get Transcript and Identity Protection Personal Identification Number applications found that these authentication methods provide only single-factor authentication, despite Government standards requiring multifactor authentication for such high-risk applications. As a result, individuals have gained unauthorized access to tax account information.



TIGTA recommended, among other things, that the IRS:

- Develop a Service-wide strategy that establishes consistent oversight of all authentication needs across IRS functions and programs; and
- Ensure that the authentication processes meet Government information security standards.

IRS management agreed with all of TIGTA's recommendations.

Reference No. 2016-40-007

Achieving Program Efficiencies and Cost Savings

As the IRS must continue to carry out its mission with a significantly reduced budget, achieving program efficiencies and cost savings is imperative. The IRS must also continue to identify and implement innovative cost-saving strategies to enforce the law with integrity and fairness and provide America's taxpayers with top-quality service by helping them understand and meet their tax responsibilities.

Status of the Implementation of Recommendations Related to Conference Spending

Excessive conference and event spending by Federal agencies has been highlighted by recent Inspector General reports and is a subject of congressional interest. Given its limited budgetary resources, the IRS must effectively manage conference and event spending to ensure that taxpayer funds are used efficiently.

In response to a prior audit report by TIGTA, the IRS has updated its policies and procedures on conference spending.³⁴ Specifically, the IRS has established controls to ensure that policies and procedures are being followed for event planning, approvals, and cost tracking. For example, the IRS updated its policy for granting Continuing Professional Education credits for conference and training events. The IRS also instituted a Service-wide Video Editorial Board to review and approve any IRS internally produced or commissioned videos in advance of production. In addition, the IRS has continually updated its guidance to reflect the approval thresholds mandated by the Department of the Treasury.

During Fiscal Years 2013 and 2014, the IRS approved and reported (as required) almost 99 percent of the training and conference events reviewed by TIGTA. Based on the estimated cost of an event, the Commissioner of Internal Revenue or Treasury Department officials must approve the event in advance, and all events costing more than \$20,000 must be reported to the Treasury Department. TIGTA determined that the IRS did not appropriately report (as required) eight events to the Treasury Department and did not report three events to the public. TIGTA also found that 55 events did not receive the

³⁴ TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California* (May 2013).



correct level of approval. Lastly, TIGTA found several improvements needed in the management of training and conference reporting.

For this report, TIGTA made several recommendations to improve the management of event approval and reporting, including that the IRS issue to the Treasury Department a single list of all events costing more than \$100,000, to ensure public reporting and the centralized retention of event approval and reporting documentation.

IRS management agreed with all of TIGTA's recommendations.

Reference No. 2016-10-020

Measurable Agreements on Security Controls Are Needed to Support the Enterprise Storage Services Solution

The Enterprise Storage Services (ESS) Program is sponsored by the IRS Storage Program Management Office. This office delivers data storage services to enterprise applications at IRS facilities through deployment of tiered storage, encrypted backup/recovery, and data replication strategies that enable high-performance systems operations, business continuity, and dynamic and secure disaster recovery. The IRS estimates that its new "Storage-As-a-Service" approach will save millions of dollars by providing better utilized resources. The new ESS environment stores IRS data, including taxpayer and other sensitive data.

The IRS has reported cost savings with its migration of production data into the ESS storage environment since March 2013. However, TIGTA found that more detailed contractual agreements are needed to support the ESS Program with data security controls, including security monitoring and incident management. Clear agreements between the IRS and the ESS contractor would better ensure adequate preparation; detection and analysis; containment, eradication, and recovery; and post-incident activity. Also, the Service Level Objectives established under the current contract do not clearly stipulate time frames for the contractor to mitigate losses and resecure the ESS environment should a data breach occur.

TIGTA recommended that the IRS:

- Modify the ESS contract to include measurable Service Level Agreements based on a complete risk assessment and security plan for the ESS Program; and
- Address specific risks affecting IRS systems related to ESS security monitoring and incident management.

IRS management disagreed with both recommendations, stating that the ESS provides disk storage as one component of a larger, multilayered infrastructure. The risk and security of all data, including access to the data, in addition to IRS incident management and security monitoring, are performed at the General Support System and Application layers using IRS standard practices and processes.



TIGTA believes that risk factors associated with contract responsibilities and ownership of ESS data storage devices should be considered under the ESS Program. IRS policy requires risk management for all infrastructure equipment capable of storing or transmitting data. However, a risk assessment has not been conducted, and the security plan is incomplete. Further, the IRS has not provided TIGTA with verification that security controls to address specific ESS risks have been considered at the General Support System and Application layers. The ESS contract does not include or reference a detailed process to guide security monitoring and overall incident management controls.

Reference No. 2016-20-002

Management Oversight of the Tier II Environment Backup and Restoration Process Needs Improvement

Inadequate backup and restoration of Tier II environment data could result in the loss of taxpayer or management information and unrecoverable data following a disaster. Effective management of the Tier II backup and restoration environment is crucial to ensure that information technology fully supports business operations by efficiently providing services to taxpayers.

TIGTA made several recommendations, including that the IRS:

- Establish goals and performance measures;
- Implement a problem management process;
- Create and implement a backup strategy that includes tests to restore databases;
- Ensure that a root cause analysis is performed on known vulnerabilities and corrective actions are properly documented;
- Develop standard operating procedures;
- Establish automated notification procedures;
- Upgrade the software and aged hardware infrastructure; and
- Develop specific guidelines that should be utilized when equipment reaches the end of its useful life.

IRS management agreed to establish goals and plans to:

- Implement performance measures and use the measures to take appropriate corrective actions;
- Implement the problem management process;
- Revise standard operating processes and procedures;
- Create and implement a backup strategy;
- Review all privilege groups;
- Establish automated notification procedures;
- Upgrade hardware and software; and
- Develop guidelines for when hardware reaches the end of its useful life.



IRS management disagreed with parts of three recommendations, including using performance metrics to determine staffing needs and adding software compatibility to the Infrastructure Currency³⁵ policy.

Reference No. 2016-20-019

³⁵ This is an IRS software modernization initiative.



Affordable Care Act

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (Affordable Care Act)³⁶ represents the largest set of tax law changes in more than 20 years and is a tremendous challenge to the IRS. The Affordable Care Act provides incentives and tax breaks to individuals and small businesses to offset health care expenses. It also imposes penalties, administered through the tax code, on individuals and businesses that do not obtain health care coverage for themselves or their employees.

With the development and implementation of new programs by the Department of Health and Human Services (HHS) and the IRS to fulfill the requirements of the Affordable Care Act, both the HHS Office of the Inspector General (OIG) and TIGTA have developed multiyear strategies to assess Affordable Care Act implementation. These strategies include continuing an ongoing coordination between HHS OIG and TIGTA to help ensure that our work is complementary. Also, TIGTA has formed a joint working team focused primarily on Premium Tax Credits (PTC). TIGTA plans to closely coordinate or perform work jointly, as necessary or appropriate, with the HHS OIG to review those processes that are highly interdependent between HHS and the IRS.

TIGTA has issued numerous reports related to the IRS's efforts to implement the tax provisions of the Affordable Care Act. For this six-month period, TIGTA issued the following significant reports:

Affordable Care Act: Controls Over Financial Accounting for the Premium Tax Credit Should Be Improved

The Affordable Care Act created a refundable tax credit referred to as the PTC to assist eligible individuals with the cost of their health insurance premiums. Rather than wait to claim the credit on their Federal tax returns, individuals may elect to have the PTC paid directly to their health insurance issuers as partial payment for their monthly premiums (referred to as the Advance Premium Tax Credit or APTC). In addition, as a refundable credit, the PTC is fully payable to the taxpayer even if the tax credit exceeds the tax liability.

TIGTA identified that controls over the financial accounting for fund outlays (disbursements) associated with the PTC should be improved. Specifically, TIGTA found errors in the IRS financial accounting and reporting of PTC-related fund outlays. To reconcile the PTC, the IRS must adjust the amounts initially recorded for APTC payments based on taxpayer-estimated income and family size to the actual PTC amount, based on income and number of dependent deductions reported on the taxpayer's Federal tax return. The errors TIGTA identified were due to a programming miscalculation.

³⁶ Pub. L. No. 111-152, 124 Stat. 1029 (codified in scattered titles of the U.S.C.).



Insufficient testing of the financial system programming, which was developed to account for the impact of the reconciliation of PTC fund outlays (disbursements), allowed the programming miscalculation to go undetected.

Due to this programming error, the IRS understated the amount of PTC disbursements and overstated the balance in the IRS PTC account by \$447 million. Further, the error TIGTA identified in the financial accounting records, if left uncorrected, would have resulted in a misstatement of the FY 2015 IRS financial statements.

In addition, TIGTA determined that the key controls established over PTC accounting do not include the requirement for the periodic performance of a financial reconciliation of the IRS's records with the APTC payment information (by taxpayer) prepared and reported by the Health Insurance Marketplaces.

As a result, TIGTA recommended that the IRS:

- Develop procedures requiring the timely and comprehensive review and testing of any changes to the financial system programming used to report outlays related to the PTC; and
- Work with the Centers for Medicare and Medicaid Services to jointly develop procedures for the periodic financial reconciliation of APTC information.

IRS management agreed with the recommendations.

Reference No. 2016-13-021

Affordable Care Act: Health Insurers Were Generally Tax Compliant

The Federal Government has paid health insurers participating in the Affordable Care Act APTC and cost-sharing reduction subsidy programs more than \$13 billion from January through September 2014. Health insurers that receive Affordable Care Act APTC and cost-sharing reduction subsidy payments must be compliant with Federal tax laws.

TIGTA determined that health insurers that were approved to participate in the APTC and/or cost-sharing reduction programs and received subsidy payments on behalf of taxpayers were generally tax compliant. None of the 365 health insurers that TIGTA reviewed³⁷ had been convicted of a felony and none were currently listed in the Excluded Parties List System³⁸ as ineligible to receive any Federal payments or benefits.

TIGTA made no recommendations as a result of the work performed during this review. However, key IRS officials reviewed this report prior to its issuance and agreed with the

³⁷ TIGTA identified 365 health insurers that were approved for program participation during the period January 1, 2014, to March 31, 2015.

³⁸ An electronic, web-based system identifying parties excluded from receiving Federal contracts, certain subcontracts, and certain types of Federal financial and nonfinancial assistance and benefits. The Excluded Parties List System keeps the Federal acquisition community aware of administrative and statutory exclusions across the Executive Branch.



facts and conclusions presented.

Reference No. 2016-13-001

Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season

Individuals can receive the PTC in advance or claim it on their tax return. Individuals who receive the PTC in advance are required to reconcile the amount paid on their behalf with the allowable amount of the PTC on their tax return. According to the IRS, almost \$11 billion in APTCs was paid to insurers in FY 2014. As of June 11, 2015, the IRS processed more than 2.9 million tax returns involving the PTC, and taxpayers received approximately \$9.8 billion in PTCs that were either received in advance or claimed at filing.

TIGTA's computer-assisted analysis of more than 2.6 million tax returns claiming the PTC that were filed between January 20, 2015 and May 28, 2015, for which the IRS had Exchange Periodic Data³⁹ (EPD), found that the IRS accurately determined the allowable PTC on more than 2.4 million (93 percent) returns. TIGTA is continuing to work with the IRS to determine the cause for calculational differences in 150,385 of the remaining 182,884 tax returns. Computer programming errors resulted in an incorrect computation of the allowable PTC for 27,827 tax returns. For 4,672 tax returns, the IRS did not have authority to correct the PTC claim during processing.

In addition, Exchanges⁴⁰ did not provide the EPD to the IRS prior to the start of the 2015 Filing Season, and IRS system problems prevented it from using the EPD received between January 20, 2015 and March 29, 2015. Without the required EPD, the IRS was unable to perform computer matches to verify filed claims or to confirm that individuals who received the APTC filed a tax return as required.

TIGTA verified that the IRS processes to identify potentially fraudulent PTC claims are operating as intended. In addition, the IRS has corrected programming errors identified by TIGTA that resulted in tax returns not being identified for further review during processing. Finally, the IRS sent letters to individuals who received the APTC but did not file a tax return, to remind them of the requirement to reconcile APTCs. However, the IRS processes intended to identify these taxpayers did not make use of the most current tax filing data.

³⁹ Information that each Exchange (see following footnote) is required to provide to the IRS on a monthly basis regarding individuals who are enrolled by the Exchange.

⁴⁰ The Affordable Care Act created certain Health Insurance Marketplaces, also known as the Exchanges. Taxpayers can find information on the Exchanges about health insurance options, purchase qualified health plans, and, if eligible, obtain help paying premiums and out-of-pocket costs.



TIGTA recommended that the IRS:

- Review the 27,827 tax returns identified by TIGTA, to ensure that these individuals receive the correct PTC; and
- Modify the Income and Family Size Verification processes to use the most current information available when determining if a taxpayer has reconciled APTCs received in the prior calendar year.

The IRS agreed with both of TIGTA's recommendations.

Reference No. 2016-43-033



Protect the Integrity of Tax Administration

TIGTA is statutorily mandated to protect the integrity and operations of the IRS. TIGTA accomplishes its mission through the investigative work conducted by the Office of Investigations (OI). Through its investigative programs, OI protects the integrity of the IRS and its ability to collect revenue owed to the Federal Government by investigating violations of criminal and civil law that adversely impact Federal tax administration, as well as administrative misconduct by IRS employees, all of which can undermine the integrity of the Nation's voluntary tax system.

The Performance Model

The Office of Investigations accomplishes its mission through the hard work of its employees and a performance model that focuses OI's resources on three primary areas of investigative responsibility:

- Employee integrity;
- Employee and infrastructure security; and
- External attempts to corrupt tax administration.

The Office of Investigations has adopted performance measures that identify the percentage of results derived from investigative activities that most accurately align with the strategic goals of the organization and that provide the greatest impact on the protection of the integrity of Federal tax administration.

IRS employee misconduct undermines the IRS's ability to deliver taxpayer service, to enforce tax laws effectively, and to collect taxes owed to the Federal Government. External threats against the IRS impede its ability to fairly, efficiently, and safely carry out its role as the Nation's revenue collector. Individuals who attempt to corrupt or otherwise interfere with the IRS through various fraudulent schemes impact the IRS's ability to collect revenue.

TIGTA investigates these serious offenses and refers them to IRS management when they involve IRS employee misconduct. When appropriate, TIGTA also refers its investigations to the Department of Justice for prosecution.

Performance Area: Employee Integrity

In order for the country's tax system to succeed, taxpayers must have confidence in the fair and impartial administration of the Federal tax laws and regulations. IRS employee misconduct, whether real or perceived, can erode the public's trust and impede the IRS's ability to effectively enforce tax laws. Employee misconduct can take many forms, such as: the misuse of IRS authority; taxpayer abuse; theft; fraud; extortion; unauthorized access to, and disclosure of, tax return information; and even identity theft.



During this reporting period, employee integrity investigations accounted for 51 percent of OI's work.

Identity Theft and the Insider Threat

It is particularly troubling when IRS employees, who are entrusted with the sensitive personal and financial information of taxpayers, misuse their positions in furtherance of identity theft and other fraud schemes. This breach of trust negatively impacts our Nation's voluntary tax system and erodes confidence in the IRS. TIGTA proactively reviews the activities of IRS employees who access taxpayer accounts for any indication of unauthorized accesses that may be part of a larger fraud scheme.



The following cases represent OI's efforts to investigate identity theft committed by IRS employees during this six-month reporting period:

IRS Employee Pleads Guilty to Orchestrating Large-Scale Identity-Theft Refund Scheme

On February 8, 2016, in the Northern District of Alabama, IRS employee Nakeisha Hall pled guilty to the theft of Government funds, aggravated identity theft, unauthorized access to a protected computer, conspiracy to commit mail fraud affecting a financial institution, and bank fraud.⁴¹ Hall was initially charged in a sealed indictment in September 2015 with the theft of Government funds, identity theft, and unauthorized access violations.⁴² In December 2015, the conspiracy charge was added against Hall, and two coconspirators, Jimmie Goodman and Abdulla Coleman, who were charged as well.⁴³ A third coconspirator, Lashon Roberson, had been charged in the conspiracy in October 2015.⁴⁴ Hall and Goodman were arrested on December 22, 2015; Coleman was arrested on January 7, 2016.⁴⁵

According to the court documents, Hall began working at the IRS in 2000. She was employed in the IRS Taxpayer Advocate Service (TAS) office in Birmingham, Alabama from 2007 to 2011, and has worked in TAS offices in Omaha, Nebraska; New Orleans, Louisiana; and Salt Lake City, Utah, since November 2011. The TAS function is responsible for assisting taxpayers who are having difficulties with the IRS, often because they are victims of identity theft who need assistance filing corrected tax returns and removing fraudulent tax information from their accounts.⁴⁶

⁴¹ N.D. Ala. Plea Agreement Hall filed Feb. 8, 2016.

⁴² N.D. Ala. Indict. Hall filed Sep. 24, 2015.

⁴³ N.D. Ala. Superseding Indict. Hall et al filed Dec. 15, 2015.

⁴⁴ N.D. Ala. Information Roberson filed Oct. 15, 2015.

⁴⁵ N.D. Ala. Criminal Docket Hall et al filed Sep. 24, 2015.

⁴⁶ N.D. Ala. Plea Agreement Hall filed Feb. 8, 2016.



By virtue of her IRS employment, Hall had the ability to access taxpayers' PII, including names, dates of birth, and SSNs. Hall's authority to access this information, however, was limited to official business purposes. Hall was fully aware of these limitations, had completed training regarding such, and knew that accesses made for nonbusiness reasons could be subject to criminal prosecution. As a result of her lengthy IRS employment, Hall was also familiar with the process of filing tax returns and maximizing tax refund amounts.⁴⁷

As part of her scheme to defraud the IRS, and for the purpose of personal financial gain,⁴⁸ Hall intentionally exceeded her authorization at work and accessed thousands of names, dates of birth, and SSNs for nonbusiness purposes, running various searches through the IRS's system looking for individuals who met certain criteria. Between 2008 and 2011, Hall used fraudulently obtained PII to file hundreds of fraudulent individual income tax returns. Not only were these returns not authorized by the taxpayers whose identities were used, they also contained false and fraudulent Forms W-2, *Wage and Tax Statement*, and other information in order to generate improper and artificially inflated refunds.

Hall prepared the fraudulent returns on her own computer using online tax software programs and requested that the associated refunds be put on debit cards designed solely for the purpose of accepting tax refunds.⁴⁹

After Hall came up with the idea for the scheme, she approached the others (coconspirators) for assistance in retrieving and liquidating the refunds. Hall solicited and obtained "drop addresses" from Goodman, Coleman, Roberson, and at least one other unnamed individual. Hall then had the tax refund debit cards sent by mail to the various "drop addresses."⁵⁰

Once the refund debit cards arrived via mail, Hall and her coconspirators retrieved and activated them using the taxpayers' PII previously obtained by Hall. Hall and her coconspirators accessed the associated funds through ATMs or by purchasing goods and services with the cards and receiving cash back on any unspent balance. For returns that generated refunds in the form of paper Treasury checks instead of debit cards, fraudulent endorsements were used to cash the Treasury checks at financial institutions. Hall compensated her coconspirators by giving them a portion of the money obtained or by giving them refund cards.⁵¹

The conspiracy involved fraudulent returns with an intended loss by way of fraudulent refunds of more than \$550,000. The Government will recommend that Hall and her charged coconspirators be joint and severally liable for restitution in the amount of

⁴⁷ *Id.*

⁴⁸ N.D. Ala. Superseding Indict. Hall et al filed Dec. 15, 2015.

⁴⁹ N.D. Ala. Plea Agreement Hall filed Feb. 8, 2016.

⁵⁰ *Id.*

⁵¹ *Id.*



\$438,187, but reserves the right to request additional restitution if additional amounts become known before Hall's sentencing date.⁵²

Hall's sentencing is set for June 29, 2016.⁵³ She could potentially face a maximum sentence of 32 years' imprisonment for the conspiracy and aggravated identity-theft charges.⁵⁴ Coconspirator Roberson entered a guilty plea on February 11, 2016, and is scheduled to be sentenced on May 10, 2016.⁵⁵ Additional legal proceedings are anticipated for Goodman and Coleman.⁵⁶

Former IRS Employee Pleads Guilty in Scheme Designed to Defraud the IRS and the Commonwealth of Pennsylvania

On November 6, 2015, in the Eastern District of Pennsylvania, former IRS employee Modestine, a/k/a "Cookie," Gillette pled guilty to filing false claims, theft of Government property, aggravated identity theft, access device fraud, wire fraud, and filing a false Federal income tax return.⁵⁷ Gillette was indicted for the offenses in February 2015. Her daughter, Moniquetta Coats, was also charged with wire fraud in the February 2015 indictment.⁵⁸

According to the court documents, Gillette was a seasonal contact representative working part-time at the IRS from October 2008 until March 2012. As a contact representative, Gillette was responsible for providing administrative and technical assistance to individuals and businesses who contacted the IRS with tax-related questions. In her capacity as an employee, Gillette had access to IRS computerized files containing confidential tax return information for taxpayers, including names, SSNs, and income information. IRS employees are prohibited from accessing tax return information in the absence of an official business reason. Agency rules and regulations also prohibit employees from preparing tax returns for compensation. Gillette had received training and instruction in these legal obligations as a condition of her employment.⁵⁹

In violation of agency rules and regulations, Gillette prepared Federal income tax returns for friends, relatives, and acquaintances in exchange for payment. Between February 2010 and February 2012, Gillette knowingly prepared and filed, or caused to be filed, nine Federal income tax returns which contained false, fictitious, or fraudulent information and diverted Government funds from those returns for her own benefit. Most of the individuals listed on the fraudulent tax returns had provided Gillette with their true income and expense information and had authorized Gillette to prepare and submit their returns for them. Nevertheless, the tax returns Gillette prepared and submitted to the IRS reported

⁵² *Id.*

⁵³ N.D. Ala. Criminal Docket Hall et al filed Sep. 24, 2015.

⁵⁴ N.D. Ala. Plea Agreement Hall filed Feb. 8, 2016.

⁵⁵ N.D. Ala. Criminal Docket Roberson filed Oct. 15, 2015.

⁵⁶ N.D. Ala. Criminal Docket Hall et al filed Sep. 24, 2015.

⁵⁷ E.D. Pa. Criminal Docket filed Feb. 18, 2015.

⁵⁸ E.D. Pa. Indict. filed Feb 18, 2015.

⁵⁹ *Id.*



false information, including income not earned by the taxpayers, business expenses not incurred, false dependent claims, and inflated refund requests. The total amount claimed was \$34,466. One taxpayer did not authorize Gillette to prepare and submit a return on her behalf; however, Gillette used the taxpayer's identification to submit a fraudulent tax return and request an inflated refund. She then directed the inflated refund into a bank account in the name of her (Gillette's) spouse.⁶⁰

Gillette knowingly stole and converted to her own use about \$12,869 of the inflated refunds by directing the taxpayers' refunds, or a portion thereof, into either her own bank account or, more often, into an account in the name of her spouse, generally without the taxpayers' knowledge.⁶¹

Further, since at least June 2010, Gillette was an owner or operator of, and was employed by, A Unique Learning Experience, LLC (A Unique Experience), a child daycare business in Philadelphia, Pennsylvania. From about June 2010 through June 2013, Gillette devised a scheme to defraud the United States and the Commonwealth of Pennsylvania Department of Labor by obtaining money through false and fraudulent representations. Specifically, Gillette received benefits to which she was not entitled under the Federal Unemployment Program, the Emergency Unemployment Compensation Program, and the American Recovery and Reinvestment Act of 2009. Gillette used the Internet and telephone to submit applications and file claims falsely representing that she was not self-employed, was not working for any other employer, and had not worked for another employer in Pennsylvania since her separation from the Federal Government.⁶²

Gillette failed to disclose that she had been receiving income from A Unique Experience. In 2011 alone, she received direct compensation from A Unique Experience in excess of \$35,000. Gillette also failed to disclose that she was an owner and operator of A Unique Experience. As a result of these misrepresentations, Gillette received approximately 66 weeks of payments, totaling about \$46,322, in unemployment benefits to which she was not entitled and which she had fraudulently obtained.⁶³

Gillette's daughter, Coats, was also an owner, operator, and employee of A Unique Experience during the same time period. Coats similarly made fraudulent representations regarding her unemployment benefits by failing to disclose that she had been an owner and operator of A Unique Experience and by failing to disclose employment with, and income from, that business. As a result, Coats received about 16 weeks of unemployment payments, totaling approximately \$10,578 in benefits,⁶⁴ to which she was not entitled. Coats pled guilty to wire fraud related to the unemployment compensation fraud on November 6, 2015.⁶⁵

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ E.D. Pa. Criminal Docket filed Feb. 18, 2015



Moreover, in January 2012, Gillette willfully filed her own 2011 joint Federal income tax return, under penalty of perjury, knowing that it was not true and correct. Gillette failed to report as income stolen funds of approximately \$5,033, her income of about \$35,138 from A Unique Experience, and her spouse's income from A Unique Experience in the amount of \$3,929.⁶⁶ Criminal sentencing is pending.

Former IRS Employee and Another Individual Charged in California With Stolen Identity-Theft Refund Fraud Scheme

On January 14, 2016, in the Eastern District of California, former IRS employee Lorita Marie Rocha and her associate and former roommate Nereida Rodriguez were indicted on charges of wire fraud and conspiracy to commit wire fraud.⁶⁷

According to court documents, Rocha was employed by the IRS at the Fresno Service Center as a seasonal tax examiner in the Error Resolution System (ERS) unit, where she had access to the names, SSNs, dates of birth, and other PII of certain taxpayers and their claimed dependents. Her duties at the IRS included verifying the accuracy of dependents claimed on tax returns.⁶⁸

Between February 2008 and January 2012, Rocha and Rodriguez participated in a scheme to obtain and to help others obtain the payment of false and fraudulent claims for refunds from the IRS through the preparation and submission of false and fraudulent Federal income tax returns. Rocha fraudulently obtained the personal information of dependents through her employment at the IRS. Rocha, Rodriguez, and those they aided, used that fraudulent dependent information to falsely claim dependents on Federal income tax returns, most of which were filed electronically. The refunds were typically issued in the form of a direct deposit into either Rocha's or Rodriguez's bank account or to a lender as reimbursement for a previously-issued refund anticipation loan.⁶⁹

Rocha and Rodriguez misappropriated more than two dozen individuals' names and means of identification from the ERS unit and subsequently caused them to be used in false and fraudulent tax returns that fraudulently claimed tax refunds in excess of \$100,000.⁷⁰

Rocha was arraigned and entered a not guilty plea on January 22, 2016.⁷¹ Her accomplice, Rodriguez, was arraigned and entered a not guilty plea on January 21, 2016.⁷²

⁶⁶ E.D. Pa. Indict. filed Feb. 18, 2015.

⁶⁷ E.D. Cal. Indict. filed Jan. 14, 2016.

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ E.D. Cal. Arraignment filed Jan. 22, 2016.

⁷² E. D. Cal. Arraignment filed Jan. 21, 2016.



The following cases represent OI's efforts to ensure employee integrity during this six-month reporting period:

IRS Employee Found Guilty of Receiving Bribe

On February 12, 2016, in the Western District of Washington at Seattle, a jury found former IRS employee Paul G. Hurley guilty of receiving a bribe and receiving an illegal gratuity in his capacity as a public official.⁷³ Hurley was indicted for the offenses in October 2015.⁷⁴

According to the court documents, Hurley corruptly sought and received something of value personally in return for being influenced in the performance of an official act. Hurley had been employed as an IRS revenue agent since June 2009 and was assigned to the Seattle, Washington, IRS office. As a part of Hurley's official duties, he conducted audits of Federal tax returns to determine whether taxpayers correctly reported and paid their tax liability to the IRS.⁷⁵

In July 2015, a taxpayer who is part owner of a business operating recreational marijuana shops and medical marijuana dispensaries in the State of Washington was notified of an audit of his business's Federal tax return. Hurley was listed as the assigned contact. The taxpayer and Hurley met at the taxpayer's place of business several times during the course of the audit. During their initial meeting, Hurley advised the taxpayer that, per the Internal Revenue Code, no deduction or credit was allowed for a business whose activities consist of trafficking in illegal substances. Hurley noted that the taxpayer would be taxed on the business's gross revenue with limited deductions. However, during the audit, Hurley seemed sympathetic to the taxpayer regarding the limitations on deductions and credits for businesses in the marijuana industry and talked about being unhappy with the IRS.⁷⁶

On September 11, 2015, Hurley gave the taxpayer the results of the audit with a proposed amount due of \$292,175.41 for TYs 2013 and 2014, to which the taxpayer agreed. Hurley continued on to say he had saved the taxpayer more than \$1 million in the audit. He further indicated that he (Hurley) was living paycheck to paycheck. With additional clarification between the taxpayer and Hurley, the taxpayer understood him to be asking for a personal payment of \$20,000. Initially Hurley wanted the taxpayer to pay off his student loans in small amounts over time, but when the taxpayer declined, Hurley then said he wanted cash. Hurley and the taxpayer scheduled a time to meet several days later. Hurley told the taxpayer not to tell anyone, not even his business partner.⁷⁷

During a meeting on September 16, 2015, Hurley accepted \$5,000 from the taxpayer in connection with his official duties as an IRS revenue agent and in exchange for providing

⁷³ W.D. Wash. Verdict Form filed Feb. 12, 2016.

⁷⁴ W.D. Wash. Indict. filed Oct. 14, 2015.

⁷⁵ W.D. Wash. Crim. Complaint filed Sep. 21, 2015.

⁷⁶ *Id.*

⁷⁷ *Id.*



low tax assessments on the audit. On September 21, 2015, Hurley accepted the remaining \$15,000, again in connection with the conduct of his official duties. Hurley was then arrested pursuant to a probable cause arrest. A search of Hurley's person and backpack revealed the \$15,000 cash plus three \$20 bills with serial numbers matching those from the previous bribe payment.⁷⁸

Sentencing has not been scheduled.

Former IRS Employee and Ex-Husband Arrested In Connection With Fraudulent Tax Refunds

On October 14, 2015, in the Eastern District of California, former IRS employee Maria Mora was arrested for conspiracy to defraud the Government by an employee, theft of public property, and unauthorized computer access.⁷⁹ Mora's ex-husband, Uriel Perez, who resides in Texas,⁸⁰ was arrested for theft of public property.⁸¹ Both were charged with the offenses in an indictment filed October 8, 2015.⁸²

According to the court documents, Mora was employed at the IRS Fresno Service Center from approximately January 1993 until June 2014. Her last position with the IRS was as a tax-examining technician whose duties included reviewing taxpayer accounts and generating IRS correspondence. From at least 2012 until about July 2014, Mora conspired with Perez to defraud the United States by causing false Federal income tax returns to be filed with the IRS to fraudulently obtain tax refunds.⁸³

Specifically, Mora prepared tax returns in Perez's name and knowingly placed false information in the returns to obtain and/or increase the tax refunds. Mora, without authorization, listed Perez's niece as his dependent in order to claim the Earned Income Credit (EIC) on his behalf. Mora then either personally filed the fraudulent tax returns or mailed them to Perez, who later filed the returns in Texas.⁸⁴

Around February 2012, Mora filed three fraudulent Federal returns for Perez, using the false dependent information to claim the EIC for TYs 2008, 2009, and 2010. When the IRS held the returns and did not issue the refunds, Mora prepared duplicate returns on behalf of Perez for these tax years, plus an additional fraudulent return for 2011. The second submission of the 2008 through 2010 false returns included supplemental documentation purporting to substantiate Perez's claim for the EIC. Mora authored and submitted forged letters falsely claiming that Perez supported his niece financially and had permission from her mother to claim her as a dependent. Perez received checks for increased tax refunds as a result of the fraudulently prepared Federal returns. He then

⁷⁸ *Id.*

⁷⁹ E.D. Cal. Executed Arrest Warrant filed Oct. 16, 2015.

⁸⁰ E.D. Cal. Indict. filed Oct. 8, 2015.

⁸¹ S.D. Tex. Crim. Docket and Transfer Document filed Oct. 20, 2015

⁸² E.D. Cal. Indict. filed Oct. 8, 2015.

⁸³ *Id.*

⁸⁴ *Id.*



cashed the checks and subsequently used the money for personal expenses. Continuing the conspiracy, in February 2014 Perez filed a fraudulent 2012 return falsely claiming the EIC, which Mora had again prepared on his behalf.⁸⁵

In addition to participating in the conspiracy to defraud the Government and the theft of public funds, Mora also misused her position at the IRS. On four separate dates, she exceeded her authority to access the tax records of Perez's family members in order to determine whether they had already claimed Perez's niece as a dependent for the purpose of the EIC. Mora made these unauthorized accesses shortly before the false returns were filed or caused to be filed.⁸⁶

As a result of their collusion in preparing and filing fraudulent Federal returns, Mora and Perez knowingly stole money and property of the IRS by causing the issuance of tax refunds and credits in excess of \$13,000, to which they were not entitled.⁸⁷ If convicted, Mora and Perez could each face up to 10 years in prison. Additional legal proceedings are anticipated.

Jury Finds IRS Employee Guilty of Disclosing Tax Information

On October 16, 2015, in the Northern District of Ohio, Western Division, IRS employee Jewel Washington was found guilty in a jury trial of the unauthorized disclosure of tax return information.⁸⁸

According to the court documents, Washington, while working as an employee of the IRS in Toledo, Ohio,⁸⁹ intentionally exceeded her authority to access a computer and obtained information from the IRS for the purpose of private financial gain. Moreover, she willfully disclosed the tax return information of a taxpayer without authority, including his identity and the nature, source, and amount of his income.⁹⁰ Washington was charged with the offenses in a three-count indictment filed in January 2015.⁹¹

As an IRS employee, Washington had been trained and warned not to access or research any account, file, or record that was not required for the performance of her official duties. Specifically, Washington was forbidden from accessing her own account or that of a spouse, relative, friend, neighbor, or any account in which she had a personal or financial interest.⁹²

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ N.D. Ohio Verdict filed Oct. 16, 2015; N.D. Ohio U.S. Response in Opposition to Defendant's Motions in Limine filed Sep. 23, 2015.

⁸⁹ N.D. Ohio U.S. Response in Opposition to Defendant's Motions in Limine filed Sep. 23, 2015.

⁹⁰ N.D. Ohio Indict. filed Jan. 7, 2015.

⁹¹ *Id.*

⁹² N.D. Ohio U.S. Response in Opposition to Defendant's Motions in Limine filed Sep. 23, 2015.



The Government alleged that on four separate dates in 2012 and 2013, Washington used the IRS's Transcript Delivery System to access tax returns and tax return information for her ex-husband, accessing 97 different transcripts through the system. It was further alleged that after the last date of access Washington disclosed the information to a hearing officer with the Lucas County Child Support Enforcement Agency in an effort to increase her ex-husband's child support payments.⁹³

The Government dismissed the unauthorized access charges;⁹⁴ however, Washington could face a maximum of five years' imprisonment for the unauthorized disclosure conviction.⁹⁵ Washington has filed a motion for acquittal.⁹⁶

Performance Area: Employee and Infrastructure Security

Collecting taxes is a critical function of the Federal Government. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective and safe administration of the Federal tax system and the IRS's ability to collect tax revenue. Through its investigations of threats directed toward the IRS, TIGTA also ensures a safe environment for taxpayers to conduct business with the IRS. All reports of threats, assaults, and forcible interference against IRS employees performing their official duties are referred to OI. During this six-month reporting period, OI responded to 949 threat-related incidents.

Contact with the IRS can be stressful and emotional for taxpayers. While the majority of taxpayer contacts are routine, some may become confrontational and even violent. TIGTA's special agents are statutorily mandated to provide physical security, known as "armed escorts," to IRS employees who have face-to-face contact with a taxpayer who may pose a danger to the employee, and to ensure that IRS employees have a secure environment in which they can perform their critical tax administration functions. During this six-month reporting period, OI provided 53 armed escorts for IRS employees.

The Office of Investigations undertakes investigative initiatives to identify individuals who could commit violence against IRS employees or who could otherwise pose a threat to IRS employees, facilities, or infrastructure. It also provides intelligence to IRS officials to assist them in making proactive operational decisions about potential violence or other activities that could pose a threat to IRS systems, operations, and people.

The investigative information sharing between OI and the IRS Office of Employee Protection (OEP) to identify potentially dangerous taxpayers is one example of TIGTA's commitment to protecting IRS employees. Taxpayers who meet OEP criteria are designated as potentially dangerous. Five years after this designation has been made, TIGTA conducts a follow-up assessment of the taxpayer so that OEP can determine if the taxpayer still poses a danger to IRS employees.

⁹³ *Id.*

⁹⁴ N.D. Ohio U.S. Motion to Dismiss Voluntarily Without Prejudice Certain Counts filed July 1, 2015.

⁹⁵ 26 U.S.C. § 7213(a)(1).

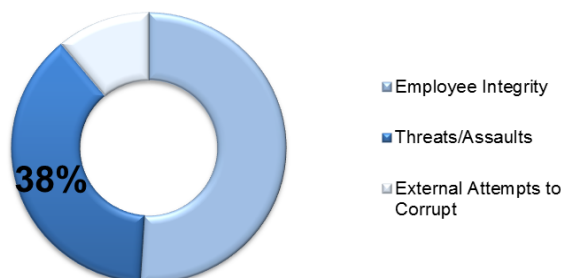
⁹⁶ N.D. Ohio Crim. Docket filed Jan. 7, 2015.



During this six-month reporting period, threat and assault investigations accounted for 38 percent of OI's work. The following case is representative of OI's efforts to ensure the safety of IRS and TIGTA employees during the reporting period:

Mississippi Woman's Fraud Scheme Culminates With Assault on a Special Agent

Threats & Assaults



On October 21, 2015, in the Northern District of Mississippi, Veronica Lloyd, of Enid, Mississippi, was charged in an 11-count superseding indictment with the theft of Government funds, fraud in connection with access devices, impersonation of a public official, and forcible interference with the Internal Revenue laws.⁹⁷

According to the court documents, between February 2014 and April 2014, Lloyd, with intent to defraud, knowingly stole and converted funds to which she was not entitled, used access devices issued to others, and falsely pretended to be an officer or employee of the United States to conceal her unlawful activities. Specifically, Lloyd stole two U.S. Treasury tax refund checks totaling \$7,937 that had been issued to other individuals, and also effected 71 transactions totaling \$11,536 with access devices (e.g., tax refund debit cards) issued to two additional individuals.⁹⁸

In connection with her scheme, and in an attempt to conceal her conversion of funds from the refund checks and debit cards, Lloyd falsely pretended to be an officer or employee of the United States. On three occasions, Lloyd composed letters purportedly from the IRS and mailed them to the victims, typically prior to her conversion of their refund monies and with the intent of preventing the victims from contacting the IRS about their tax refunds. Lloyd also intentionally altered and mailed two letters purporting to be from the Department of the Treasury, Financial Management Service, with the intent to convince an individual that his tax refund had been withheld to satisfy an outstanding child support debt. Furthermore, she called a victim's spouse using a blocked phone number and posed as an IRS agent, urging the individual to relinquish possession of his \$6,206 refund check to her in order to resolve a purported overpayment issue.⁹⁹

Subsequently, in May 2015, Lloyd knowingly and intentionally, by force and by threats of force, endeavored to intimidate and impede an officer of the United States who was acting in an official capacity. Specifically, Lloyd assaulted and attempted to assault a TIGTA special agent by charging at her with a dangerous weapon, *i.e.*, a shovel, and

⁹⁷ N.D. Miss. Superseding Indict. filed Oct. 21, 2015; N.D. Miss. Crim. Cover Sheet filed May 19, 2015.

⁹⁸ *Id.*

⁹⁹ *Id.*



verbally accosting the special agent while the agent was engaged in the performance of her official duties.¹⁰⁰ Lloyd's trial is scheduled for May 23, 2016.¹⁰¹

Performance Area: External Attempts to Corrupt Tax Administration

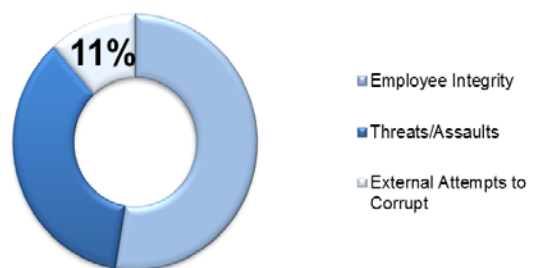
TIGTA also investigates external attempts to corrupt or impede tax administration. Taxpayers may interfere with the IRS's ability to collect revenue for the United States in many ways, for instance by: impersonating IRS employees or misusing IRS seals and symbols; filing false or frivolous documents against IRS employees; using fraudulent IRS documentation to perpetrate criminal activity; offering bribes to IRS employees to influence their tax cases; or committing fraud in contracts awarded by the IRS to contractors.

These attempts to corrupt or otherwise interfere with tax administration not only inhibit the IRS's ability to collect revenue but also undermine the public's confidence in fair and effective tax administration.

Individuals may also impersonate the IRS or its employees to obtain PII from unsuspecting taxpayers or to defraud them out of their money. These individuals may claim to be IRS employees on the telephone or may misuse IRS logos, seals, or symbols to create official-looking letters and e-mails. The taxpayers are often told they owe money to the IRS that must be paid through a pre-loaded debit card or wire transfer. Sometimes taxpayers are tricked into providing their PII, which the impersonator uses to commit identity theft. TIGTA aggressively investigates these criminal activities to ensure that taxpayers maintain confidence in the integrity of Federal tax administration.

During this reporting period, investigations into attempts to corrupt or impede tax administration accounted for 11 percent of OI's work.

External Attempts to Corrupt



Scams and Schemes

For more than 10 years, the IRS has provided the public with information on its website about what it deems to be the "Dirty Dozen" of tax scams. These scams range from offshore tax avoidance to fake charities and inflated refund claims. The list, which is compiled annually, features a variety of common scams that taxpayers may encounter. Many of these scams peak during the filing season, as people prepare their returns or utilize the services of paid preparers. The IRS telephone impersonation scam has become so prevalent that it now figures prominently on the IRS's "Dirty Dozen" list.

¹⁰⁰ *Id.*

¹⁰¹ N.D. Miss. Criminal Docket filed May 19, 2015.



Between October 2013 and March 31, 2016, TIGTA logged more than one million contacts from taxpayers who reported that they had received telephone calls from individuals who claimed to be IRS employees. The impersonators told the victims that they owed additional tax and that if they did not immediately pay they would be arrested, lose their driver's licenses, or face other consequences. More than 5,700 victims reported that they had paid the impersonators a total of more than \$31 million. Because of the complexity of their operations, scams such as these are not typically resolved quickly.

To protect taxpayers from being victimized by the scammers, TIGTA established an "Advise and Disrupt" approach to the scam that identifies the telephone numbers used by the scammers and, through an automated process, calls those telephone numbers to advise the scammers that their activity is fraudulent and criminal. Since April 17, 2015, by working with telephone companies, TIGTA has been successful in shutting down 431 of 574 telephone numbers used by the scammers.

"The phone fraud scam has become an epidemic, robbing taxpayers of millions of dollars of their money. We are making progress in our investigation of this scam, resulting in the successful prosecution of some individuals associated with it over the past year."

*J. Russell George
Inspector General
Press Release dated
January 20, 2016*

TIGTA urges taxpayers to remain on "high alert" and, in a recent press release, announced additional outreach efforts to prevent them from falling victim to criminals who impersonate IRS and Treasury Department employees this filing season. The expanded outreach includes public service announcements, available on YouTube in English and Spanish, that warn taxpayers about the scam. In addition, TIGTA is working with its partners in the public and private sector to help get the word out, both through traditional law enforcement channels and through direct outreach to associations, nongovernmental organizations, and the media.

The impersonation scam has claimed victims in practically every State. The top five States with victims who have suffered financial losses are: California, New York, Texas, Florida, and New Jersey. The following map shows the amount of financial losses suffered by victims in each State.

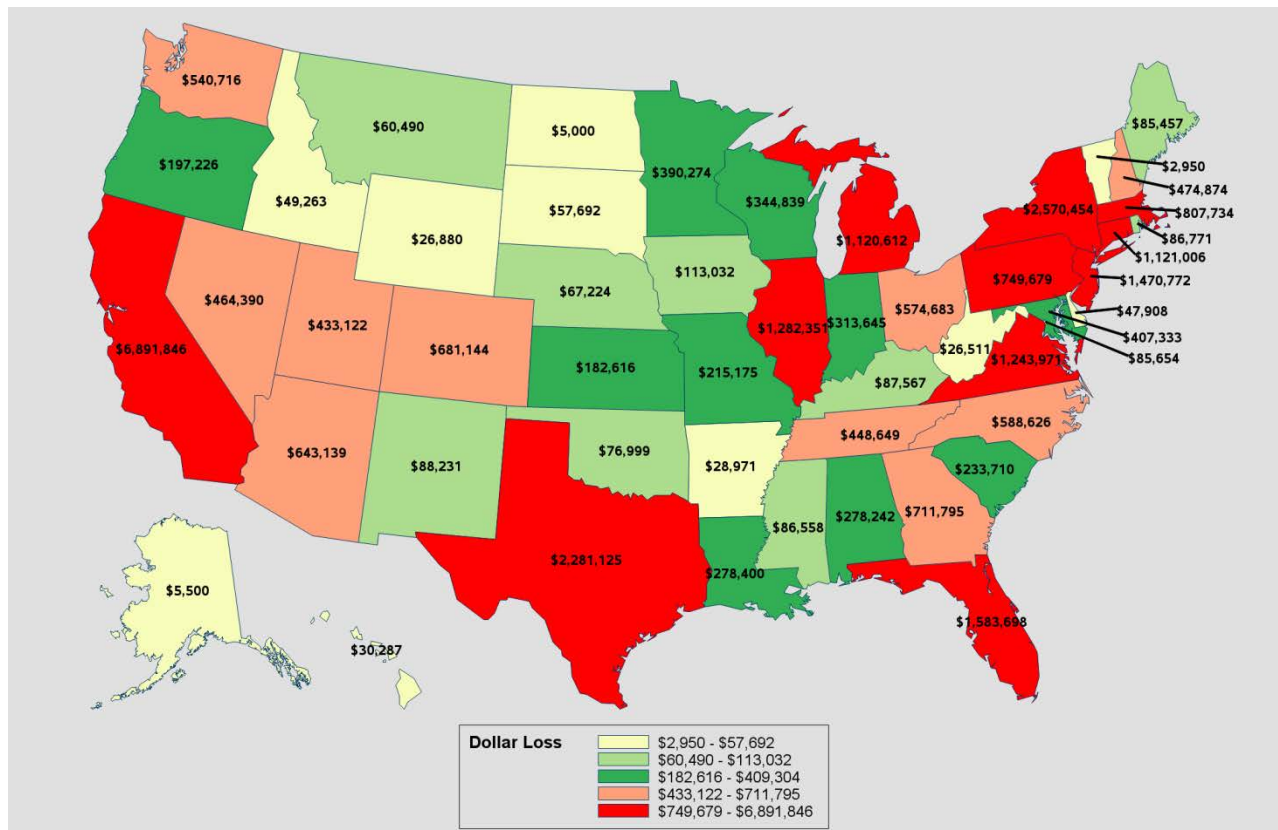


Figure 1 Financial Losses by State

Tax-related identity theft and IRS impersonation telephone scams cause a strain upon limited IRS and TIGTA resources and challenge the integrity of Federal tax administration. TIGTA is dedicated to educating the public about identity theft and IRS impersonation scams in its efforts to prevent fraud against the IRS and protect U.S. taxpayers from falling prey to these scams. TIGTA has been working closely with the IRS, Federal Trade Commission, Consumer Protection Bureau, Veterans Affairs, U.S. Attorneys' offices, and a variety of State and local governments, as well as media outlets, to publish press releases, warnings, and other public awareness announcements to alert taxpayers of this current scam.

Lottery scams usually start with an e-mail or telephone call to unsuspecting victims informing them that they have won the lottery, but before they can collect the winnings they must send money to prepay a tax to the IRS. The lottery scam often, but not always, originates from outside of the United States and continues because it capitalizes on a very common dream of getting rich quick and hitting the jackpot. These schemes often target the elderly and peak during the filing season. TIGTA continues to work with its law enforcement partners in the United States and abroad to shut down these operations.

The following cases represent OI's efforts to address and deter external attempts to corrupt tax administration during this six-month reporting period:



Two Individuals Sentenced in Georgia for Impersonation Scheme

On January 5, 2016, in the Northern District of Georgia, Kenneth Kaufman was sentenced for conspiracy to commit mail and wire fraud associated with an impersonation scheme.¹⁰² Kaufman and coconspirator Kecia Place were initially indicted for the scheme in March 2015.¹⁰³ Place pled guilty to an Information charging her with money laundering in August 2015¹⁰⁴ and was sentenced for that offense on November 18, 2015.¹⁰⁵ Kaufman entered a guilty plea for the conspiracy charge on September 10, 2015.¹⁰⁶

According to the court documents, from early 2014 until February 2015, Kaufman, Place, and others knowingly and willfully conspired to devise a scheme to defraud and obtain money through the use of materially false and fraudulent representations. In execution of the scheme, Kaufman rented a post office (P.O.) box in Atlanta, Georgia, and established a bank account in his name. The conspirators then established a Georgia business named Brand New Day Management, LLC (Brand New Day) and opened a second bank account in the name of the business. Place was listed on this bank account as a co-signer and as Secretary of Brand New Day. Kaufman later added the business name as a mail recipient at the P.O. box in Atlanta.¹⁰⁷

In furtherance of the scheme to defraud, the conspirators contacted individuals and falsely advised them that they had to first pay a sum of money to cover taxes or fees in order to receive the lottery or prize money. Victims were instructed to send the taxes or fees through a variety of methods, such as a U.S. Postal Money Order or check mailed to Kaufman or Brand New Day at the established P.O. box, a direct deposit of funds into one of the two bank accounts established for the scheme, or via Western Union or MoneyGram funds sent to the conspirators. Some victims were contacted again after making their initial payment and falsely advised that the value of the lottery or prize had increased and additional taxes or fees were needed in order for them to receive their prize money.¹⁰⁸

Kaufman and Place received approximately \$380,000 from at least 20 victims. None of the victims ever received the promised winnings.¹⁰⁹ Kaufman was sentenced to 33 months in prison, and Place was sentenced to one year and one day in prison. Each will be on supervised release for three years following his or her respective prison term. Kaufman was ordered to make restitution in the amount of \$355,433.00. Place is jointly and severally liable for \$78,864.50 of the restitution.¹¹⁰

¹⁰² N.D. Ga. Amended Judgment Kenneth Kaufman filed Jan. 7, 2016.

¹⁰³ N.D. Ga. Indict. filed Mar. 18, 2015.

¹⁰⁴ N.D. Ga. Information filed Aug. 17, 2015.

¹⁰⁵ N.D. Ga. Judgment Kecia Place filed Nov. 19, 2015.

¹⁰⁶ N.D. Ga. Minute Sheet Change of Plea Kenneth Kaufman filed Sep. 10, 2015.

¹⁰⁷ N.D. Ga. Indict. filed Mar. 18, 2015.

¹⁰⁸ *Id.*

¹⁰⁹ *Id.*

¹¹⁰ N.D. Ga. Amended Judgment Kenneth Kaufman filed Jan. 7, 2016; N.D. Ga. Judgment Kecia Place filed Nov. 19, 2015.



Individual Indicted for Role in Jamaican Lottery Scheme

On February 17, 2016, in the Southern District of New York, Daile Ferguson, a/k/a Normandale Ferguson, was indicted for conspiracy to commit wire fraud associated with a Jamaican lottery scheme.¹¹¹ Ferguson had been arrested for the offense in December 2015.¹¹²

According to the court documents, from at least 2009 until 2014, Ferguson was involved in a scheme to defraud elderly victims¹¹³ and to obtain money from them by informing them that they had won substantial cash prizes in an international sweepstakes lottery, but before they could claim the prizes they had to pay fees and taxes. The victims were contacted by telephone, fax, and e-mail and requested to pay fees and taxes on the winnings; however, there was no sweepstakes lottery and the victims never received any cash prizes. The victims sent hundreds of thousands of dollars in cash and checks to conspirators in the United States and in Jamaica. Ferguson received more than \$430,000 from approximately 87 different individuals throughout the United States. Of those 87 individuals, approximately 43 were over 70 years old and approximately 59 were over 60 years old.¹¹⁴

One of the victims, a resident of Connecticut, received a letter purporting to be from a "tax return officer" with the IRS. The letter advised that the victim had won \$750,000, which was processed through the IRS office, and that the IRS "has also verified and has recorded the payment." The letter also stated that insurance fees had to be paid before the victim could receive the money. Additionally, the victim received several telephone calls from various individuals, including an individual who identified herself as an employee of the IRS and demanded that the victim make payments in order to receive the supposed winnings. As a result of the telephone calls and e-mails that the victim received from the conspirators, the victim sent approximately \$20,000 through various means to numerous individuals, including Daile Ferguson.¹¹⁵

When interviewed, Ferguson admitted that in or around 2011 he began collecting money from individuals located in the United States on behalf of his acquaintances in Jamaica and kept a portion of the money he collected for himself. He also admitted that he heard that at least one of the individuals on whose behalf he collected money was involved in a lottery scheme. He admitted that "something felt wrong" and "not right" about collecting the money.¹¹⁶

¹¹¹ S.D. N.Y. Indict. filed Feb. 17, 2016.

¹¹² S.D. N.Y. Bail Disposition filed Dec. 22, 2015.

¹¹³ S.D. N.Y. Indict. filed Feb. 17, 2016.

¹¹⁴ S.D. N.Y. Crim. Compl. filed Dec. 16, 2015.

¹¹⁵ *Id.*

¹¹⁶ *Id.*



Nigerian Man Arrested for Role in Large-Scale Scheme Using Stolen Identities to Interfere With and Defraud the IRS

Michael Oluwasegun Kazeem was indicted in the District of Oregon for mail fraud, conspiracy to commit mail fraud, and aggravated identity theft on February 4, 2016,¹¹⁷ and was subsequently arrested for those same offenses in Atlanta, Georgia on February 17, 2016.¹¹⁸

According to the indictment, beginning as early as TY 2012 and continuing until May 2015, Kazeem knowingly conspired with others to commit mail fraud, to defraud the IRS and obtain money through false and fraudulent representations, and to use the means of identification of others without lawful authority. Kazeem resides in Nigeria and in the State of Georgia. His brother (and coconspirator) lives in Maryland, and a third coconspirator resides in Georgia.¹¹⁹

The object of the conspiracy was to obtain stolen PII and use that information, coupled with information illegally obtained from IRS data systems, for the purpose of preparing and electronically filing fraudulent tax returns with the IRS to claim fraudulent refunds.¹²⁰

Kazeem and his coconspirators obtained the names and other PII of more than 250,000 U.S. taxpayers without their knowledge or consent. The stolen PII included information originating from a database owned by an Oregon company that conducts background checks for volunteers and job applicants. The coconspirators exchanged hundreds of communications containing the stolen SSNs and other PII from the Oregon database.¹²¹

In furtherance of the conspiracy, Kazeem and his coconspirators used the stolen PII for unauthorized access to the IRS transcript system, which was available online through the “Get Transcript” application, in order to obtain more than 1,200 taxpayer transcripts for subsequent use in filing fraudulent returns in those taxpayers’ names. An IRS transcript shows the taxpayer’s tax return information, including line items from the return, income information from the Forms W-2, 1099, and 1098, and basic data such as marital status, adjusted gross income, and taxable income. The online “Get Transcript” application requires a multi-step authentication using the taxpayer’s PII and personal identity verification questions. The coconspirators used the stolen names and other PII, along with any IRS transcript information acquired, to create fraudulent income tax returns and false Forms W-2.¹²²

The coconspirators also used the stolen PII to obtain Electronic Filing Personal Identification Numbers (PIN) in the names of the victims. An Electronic Filing PIN is a five-digit personal identification number required for electronically filed tax returns when

¹¹⁷ D. Or. Indict. filed Feb. 4, 2016.

¹¹⁸ D. Or. Executed Arrest Warrant filed Feb. 18, 2016.

¹¹⁹ D. Or. Indict. filed Feb. 4, 2016.

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.*



the filer does not have certain items of information from the previous year. A filer can request an Electronic Filing PIN using the website IRS.gov by authenticating his or her identity through a variety of prompts for personal information, including SSN, name, address, and date of birth. Kazeem sent communications to his brother containing more than 4,000 fraudulently obtained Electronic Filing PINS and stolen taxpayer PII. The fraudulent Electronic Filing PINS sent to Kazeem's brother, as well as disposable e-mail addresses, were used to file more than 1,375 fraudulent Federal returns for TY 2013, claiming refunds in excess of \$11 million. The actual loss based on the returns accepted for payment exceeded \$2.6 million.¹²³

The coconspirators acquired hundreds of Green Dot debit cards with the stolen PII and used them to receive fraudulent tax refunds. They retrieved the fraudulent refunds from the debit and/or stored value cards through various purchases, including the purchase of money orders or wire transfers payable to themselves, and converted cash and money orders for their personal use.¹²⁴

In total, Kazeem and his coconspirators used the stolen PII to file more than 2,900 false Federal income tax returns seeking more than \$25 million dollars in fraudulent refunds. The actual losses to the IRS exceeded \$4.7 million.¹²⁵

Additional legal proceedings are anticipated.

California Man Sentenced for Impersonating an IRS Employee With the Intent to Harass

On January 4, 2016, in the Northern District of California, Douglas York was sentenced for the impersonation of an employee of the United States.¹²⁶ York was indicted for the offense in April 2015,¹²⁷ and a jury found him guilty in August 2015.¹²⁸

According to the court documents, York pretended to be an officer or employee of the United States, specifically an agent of the IRS engaged in the investigation of tax records. Without disclosing his true identity, and with intent to threaten and harass a specific person, York made a telephone call and left a voice mail for his victim indicating that he was from the IRS and was calling about a tax audit.¹²⁹

In a trial memorandum, the Government alleged that York made an interstate communication for the purpose of harassment, *i.e.*, a telephone call originating in California by means of an application called "Spoofcard," whose servers were located in New Jersey. In the communication, York failed to truthfully identify himself and also used

¹²³ *Id.*

¹²⁴ *Id.*

¹²⁵ *Id.*

¹²⁶ N.D. Cal. Judgment filed Jan. 7, 2016.

¹²⁷ N.D. Cal. Indict. filed Apr. 22, 2015.

¹²⁸ N.D. Cal. Verdict Form filed Aug. 28, 2015.

¹²⁹ N.D. Cal. Superseding Indict. filed July 9, 2015.



a voice alteration feature to further conceal his identity.¹³⁰ The voice mail left for the victim represented that Judy Smith from the IRS was calling and stated that a tax audit was going to be requested for years 2005, 2006, and 2007. The caller requested a return call to the number listed on the caller ID and further warned that if the victim could not be reached, the IRS would be checking into his past and looking into his records.¹³¹

The Government alleged that it was York's purpose to annoy and harass the victim with the voice mail, as well as with other continued instances of harassment. Among other things, York incessantly called the victim over the course of several months, placed a phony advertisement for the sale of a car on Craigslist with the victim's address listed, and posted a sign on the victim's street claiming he was a child predator.¹³²

York was sentenced to 12 months and one day in prison, followed by one year of supervised release. The special conditions of York's supervision state that York is to have no contact with the victim during his supervision, is to abstain from the use of all alcoholic beverages, and is to participate in a mental health treatment program.¹³³ York appealed his conviction and sentence on January 7, 2016.¹³⁴ He was scheduled to begin his sentence on February 3, 2016;¹³⁵ however, on January 19, 2016, the court issued a no-bail warrant for York's arrest because he had violated the conditions of his pretrial release, including removal of his monitoring device and excessive consumption of alcohol. As of the date of the warrant, attempts to locate York had been unsuccessful and his whereabouts were unknown.¹³⁶

Disbarred Attorney Sentenced in Fraud Scheme

On February 2, 2016, in the District of Maryland, Sandra Lucille White was sentenced for mail fraud, wire fraud, money laundering, and aggravated identity theft.¹³⁷ White had been found guilty of the offenses in a seven-day jury trial in July 2015.¹³⁸

According to the court documents, White was an attorney licensed in the District of Columbia (D.C.) and in Maryland. Between March 2010 and May 2013, White knowingly and willfully devised a scheme to defraud individuals and obtain money and property by means of fraudulent pretenses and representations.¹³⁹

Specifically, White served as the attorney for an individual (the victim) residing in Washington, D.C. who was assisting an incapacitated relative. At White's request, the

¹³⁰ N.D. Cal. United States' Trial Memorandum filed July 9, 2015.

¹³¹ N.D. Cal. Superseding Indict. filed July 9, 2015.

¹³² N.D. Cal. United States' Trial Memorandum filed July 9, 2015.

¹³³ N.D. Cal. Judgment filed Jan. 7, 2016.

¹³⁴ N.D. Cal. Notice of Appeal filed Jan. 7, 2016.

¹³⁵ N.D. Cal. Judgment filed Jan. 7, 2016.

¹³⁶ N.D. Cal. Petition for Arrest Warrant for Defendant Under Pretrial Supervision filed Jan. 19, 2016.

¹³⁷ D. Md. Judgment filed Feb. 4, 2016.

¹³⁸ D. Md. Verdict Form filed July 23, 2015; D. Md. Crim. Docket retrieved Feb. 22, 2016.

¹³⁹ D. Md. Superseding Indict. filed Sep. 22, 2014.



victim provided her with an accounting of the relative's assets. White then assisted the victim in obtaining permanent guardianship of the relative in late 2010. The relative died in January 2011. White was disbarred from practicing law in D.C. and Maryland in January 2011 and September 2011, respectively, but never informed the victim she was no longer a licensed attorney.¹⁴⁰

As part of her scheme to defraud the victim, White created numerous fraudulent notices that purported to be from the IRS demanding payment of taxes purportedly owed by the deceased relative and another of the victim's deceased relatives. White mailed and faxed these fraudulent notices to the victim.¹⁴¹

White advised the victim that, as the legal guardian of the deceased relative, she (the victim) was required to remit payments for the taxes. The fraudulent notices stated that payments were to be sent to an entity called Intel Realty Financial Service (IRFS) at an address that was controlled by White.¹⁴²

In furtherance of her scheme, White attempted to obtain a Maryland driver's license in the deceased relative's name but bearing her own photograph. She opened bank accounts in the names of IRFS and the deceased relative and obtained debit cards in the deceased's name.¹⁴³

White then deposited the checks, totaling more than \$500,000, which had been sent by the victim in response to the purported IRS notices. White wrote checks from the bank accounts to herself or others for her own benefit using the forged signature of the deceased relative. One such check was made payable to Herb Gordon Volvo in the amount of \$20,500, to pay for part of the down payment on a Volvo later titled to White.¹⁴⁴

White was sentenced to a total of 11 years in prison, followed by three years of supervised release. She was also ordered to pay restitution in the amount of \$841,908.57.¹⁴⁵

Pennsylvania Tax Preparer Sentenced in Extortion Scheme Designed to Shut Down Her Competitor

On March 3, 2016, in the Middle District of Pennsylvania, Maria Colvard was sentenced for false impersonation of an employee of the United States, extortion by a person representing to be an officer of the United States, and interference with commerce by threats.¹⁴⁶ Colvard and co-defendant Merarys Paulino were initially indicted in June

¹⁴⁰ *Id.*

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Id.*

¹⁴⁴ *Id.*

¹⁴⁵ D. Md. Judgment filed Feb. 4, 2016.

¹⁴⁶ M.D. Pa. Judgment filed Mar. 4, 2016.



2013.¹⁴⁷ Paulino entered a guilty plea to the extortion charge in October 2013¹⁴⁸ and was sentenced to probation and community service in July 2015.¹⁴⁹ Colvard was found guilty in a four-day jury trial in June 2015.¹⁵⁰

According to the court documents, Colvard was the owner/operator of Tax Max, LLC, with locations in Chambersburg and Hanover, Pennsylvania.¹⁵¹ Between February 2013 and May 2013, Colvard obstructed and affected the commerce of her competitor, Cristina's Tax Service, by extortion with the use of fear and threats, including the fear of economic loss.¹⁵² The operator of Cristina's Tax Service, Cristina Gutierrez, was previously employed by Colvard in her (Colvard's) tax preparation business.¹⁵³

As part of the extortion scheme against her business competitor, Colvard obtained and conspired to obtain property from Cristina's Tax Service by the wrongful use of fear. She did so by aiding, counseling, and inducing Paulino into representing herself as an employee of the United States, specifically, a criminal investigator with the IRS named "LaBella Williams." Under the false pretense of her employment with the IRS, and purportedly on behalf of the United States, Paulino demanded the client list of Cristina's Tax Service, sums of money, and the closure of the business.¹⁵⁴

Colvard was sentenced to 36 months in prison, followed by three years of supervised release. She was ordered to pay \$236 in restitution and is forbidden from having contact with any victims or their families.¹⁵⁵ According to the Department of Justice press release, Colvard may also face deportation.

Arkansas Man Sentenced for Retaliating Against the IRS

On October 28, 2015, in the Western District of Arkansas, Philip Roberts was sentenced for corrupt interference with the Internal Revenue laws.¹⁵⁶ Roberts was indicted for the offense in June 2014¹⁵⁷ and pled guilty in June 2015.¹⁵⁸

According to the court documents, Roberts, a resident of Fort Smith, Arkansas, had an outstanding Federal income tax liability of more than \$2 million. As the IRS started its efforts to collect Roberts's outstanding tax liability, he engaged in protracted and open defiance, corruptly endeavoring to obstruct and impede the due administration of the

¹⁴⁷ M.D. Pa. Indict. filed June 5, 2013.

¹⁴⁸ M.D. Pa. Crim. Docket filed June 5, 2013.

¹⁴⁹ M.D. Pa. Judgment Paulino filed July 21, 2015.

¹⁵⁰ M.D. Pa. Verdict filed June 12, 2015; Pa. Crim. Docket dated Mar. 7, 2016.

¹⁵¹ M.D. Pa. Motion to Withdraw Guilty Plea filed Jan. 22, 2015.

¹⁵² M.D. Pa. Superseding Indict. filed Nov. 6, 2013.

¹⁵³ M.D. Pa. Motion to Withdraw Guilty Plea filed Jan. 22, 2015.

¹⁵⁴ M.D. Pa. Superseding Indict. filed Nov. 6, 2013.

¹⁵⁵ M.D. Pa. Judgment filed Mar. 4, 2016.

¹⁵⁶ W.D. Ark. Judgment filed Oct. 30, 2015.

¹⁵⁷ W.D. Ark. Indict. filed June 25, 2014.

¹⁵⁸ W.D. Ark. Plea Agr. filed June 22, 2015.



Internal Revenue Code by submitting numerous frivolous documents to the IRS with the intention of obstructing its efforts to collect his unpaid tax liability.¹⁵⁹

Included in Roberts's fraudulent submissions were numerous documents falsely naming former Secretary of the Treasury Henry Paulson Jr. as his fiduciary; documents falsely claiming that Secretary Paulson, former IRS Commissioner Douglas Schulman, and several named IRS employees were involved in cash transactions with Roberts, ranging in amounts from \$2.5 million to \$300 million; and IRS Forms 1099-OID, *Original Issue Discount*, claiming payments were made to three IRS employees engaged in the collection of Roberts's tax liability, when in fact, Roberts had made no such payments to the employees.¹⁶⁰

According to the Government's sentencing memorandum, this is the second time Roberts has been convicted of a Federal tax crime. In 2000, Roberts was convicted for failing to file Federal income tax returns and was sentenced to 16 months in prison. By 2008, Roberts's tax liability had grown to more than \$2 million. Roberts then not only tried to pay his outstanding taxes using bogus financial instruments, he also engaged in a concerted effort to thwart the IRS's attempts to collect his unpaid taxes, including singling out for his revenge IRS employees who were simply doing their jobs. Forms filed against the three IRS revenue officers who had been assigned to collect Roberts's taxes were in apparent retaliation for their failure to accept his fraudulent documents as payment. Additionally, Roberts threatened that the revenue officers would be civilly liable for his taxes and threatened them with possible criminal prosecution.¹⁶¹

Roberts was sentenced to 17 months in prison, followed by one year of supervised release. He was further ordered to pay a \$3,000 fine and cooperate with the IRS in the ascertainment of any taxes owed.¹⁶²

Day Care Owner Sentenced for Submitting Fake IRS Document to Obstruct Collection of Funds

Deborah Cellucci was sentenced on December 1, 2015, in the Eastern District of Pennsylvania, for obstructing the administration of the Internal Revenue laws and wire fraud.¹⁶³ Cellucci had been indicted for the offenses in September 2014¹⁶⁴ and had pled guilty in June 2015.¹⁶⁵

According to the court documents, Cellucci was the owner and operator of a day care center in Philadelphia, Pennsylvania called Our Little Rascals (OLR), which received

¹⁵⁹ W.D. Ark. Indict. filed June 25, 2014.

¹⁶⁰ *Id.*

¹⁶¹ W.D. Ark. United States Sentencing Memorandum filed Oct 14, 2015.

¹⁶² W.D. Ark. Judgment filed Oct. 30, 2015.

¹⁶³ E.D. Pa. Judgment filed Dec. 1, 2015.

¹⁶⁴ E.D. Pa. Indict. filed Sep. 30, 2014.

¹⁶⁵ E.D. Pa. Crim. Docket filed Sep. 20, 2014.



monthly public subsidy payments from a designated agency in support of Pennsylvania's subsidized child care program.¹⁶⁶

Cellucci's day care business became delinquent on various corporate tax payments and owed more than \$50,000 to the IRS. The IRS made efforts to collect the debt, which Cellucci was aware of and had discussed with an accountant and the assigned IRS revenue officer. As part of its collection efforts, the IRS sent a Notice of Levy to the State's designated payment agency in order to redirect the monthly day care subsidy payment to the IRS, instead of to OLR, in partial satisfaction of the business's delinquent tax bill.¹⁶⁷ The subsidy due to OLR the following month was \$28,103.20. In light of the Notice of Levy, the payment agency prepared a check in that amount payable to "US Treasury."¹⁶⁸

Cellucci then corruptly endeavored to obstruct and impede the administration of the Internal Revenue laws, devising a scheme to defraud the IRS and obtain money by means of false pretenses and representations. As part of the scheme, Cellucci created or obtained a false Release of Levy and transmitted it via facsimile from her home in New Jersey to the agency in Philadelphia. Relying upon the false Release of Levy received, the agency set aside the check payable to the U.S. Treasury and instead issued a check in the amount of \$28,103.20 to OLR, thus causing the levied funds to be paid to the day care business instead of the IRS. Cellucci received and cashed the check, depositing the proceeds in an OLR bank account.¹⁶⁹

Cellucci was sentenced to 12 months and one day in prison, followed by three years of supervised release. She was further ordered to pay \$28,103.20 in restitution to the IRS.¹⁷⁰

Canadian Man Sentenced for His Role in U.S. Fraud Scheme

On February 8, 2015, in the Eastern District of Virginia, David Solomon a/k/a David Chityal, was sentenced for conspiracy to commit mail and wire fraud.¹⁷¹ Solomon had been indicted for these offenses and others in March 2012,¹⁷² and was arrested in October 2015 at Dulles International Airport¹⁷³ after his extradition from Hungary.¹⁷⁴

According to the court documents, Solomon, a Canadian citizen and resident, knowingly and intentionally conspired with others to devise a scheme to defraud and to obtain money and property by means of materially false and fraudulent representations. The

¹⁶⁶ E.D. Pa. Indict. filed Sep. 30, 2014.

¹⁶⁷ E.D. Pa. Govt. Change of Plea Memorandum filed June 23, 2015.

¹⁶⁸ E.D. Pa. Indict. filed Sep. 30, 2014.

¹⁶⁹ *Id.*

¹⁷⁰ E.D. Pa. Judgment filed Dec. 1, 2015.

¹⁷¹ E.D. Va. Judgment filed Feb. 9, 2016.

¹⁷² E.D. Va. Indict. filed Mar. 20, 2012.

¹⁷³ E.D. Va. Executed Arrest Warrant filed Oct. 25, 2015.

¹⁷⁴ E.D. Va. Detention Order Pending Trial filed Oct. 29, 2015.



purpose of the conspiracy was to secretly obtain tax refunds in excess of \$2 million for the conspirators' personal enrichment, when in fact the right to receive such refunds had been transferred to a bankruptcy estate.¹⁷⁵

Prior to meeting Solomon, his coconspirator (hereafter Conspirator 1) had been sentenced to 100 years in prison for his role as the mastermind of a fraud scheme and ordered to pay more than \$128 million in restitution to victims. In part, the funds obtained by the bankruptcy estate, including tax refunds, were to be credited against the amounts owed for criminal restitution. The court-appointed trustee was tasked with recovering assets, and Conspirator 1 signed an IRS Power of Attorney (POA) authorizing the bankruptcy estate's accountant to represent him before the IRS. Returns filed by the accountant on Conspirator 1's behalf claimed more than \$2 million in refunds.¹⁷⁶

Solomon and Conspirator 1 had met while incarcerated at the Beaumont Federal Correctional Complex in Beaumont, Texas. When Solomon was released from Beaumont Prison in 2010, he was deported to Canada; however, he and Conspirator 1 continued regular contact by telephone as they developed their conspiracy to keep the tax refunds from the bankruptcy estate.¹⁷⁷ While still incarcerated, Conspirator 1, together with Solomon, sought to retain a prestigious New York lawyer to represent him in his criminal appeal and claimed he was due a large tax refund with which he would be able to pay the attorney's retainer fee. In fact, Solomon and Conspirator 1 knew at that time that the refund belonged to the bankruptcy estate.¹⁷⁸

Conspirator 1 signed a new IRS POA making the New York attorney his representative before the IRS and revoked the previous court-appointed POA in favor of the bankruptcy estate. The New York attorney exercised his POA and made repeated inquiries of the IRS about the status of Conspirator 1's anticipated tax refund checks.¹⁷⁹

In their contacts with each other, Solomon and Conspirator 1 made it clear that they knew the bankruptcy estate rightfully owned the tax refunds and discussed changing the POA from the New York attorney to someone else, because Conspirator 1 was afraid the refunds would be seized by the Government. They talked about setting up an off-shore account and intended to place the tax refunds in the account to shield their ownership and reduce suspicion about the origin of the funds. They remained in frequent contact with the attorney, with Solomon representing himself as "David Solomon" and not revealing his true identity. The conspirators repeatedly requested the attorney to provide them with information about the status of the refund checks.¹⁸⁰

Solomon then hired another attorney, a Canadian lawyer, and Conspirator 1 instructed the New York attorney that the tax refund checks should be mailed to the Canadian

¹⁷⁵ E.D. Va. Indict. filed Mar. 20, 2012.

¹⁷⁶ *Id.*

¹⁷⁷ *Id.*

¹⁷⁸ *Id.*

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*



attorney once they were obtained. Solomon and Conspirator 1 directed the New York attorney on several occasions to contact the circuit court regarding Conspirator 1's criminal appeal, and Solomon provided a number of false statements regarding his relationship with Conspirator 1, the source of the attorney's retainer fees, and the need to delay court-established deadlines.¹⁸¹

When the New York attorney received the two tax refund checks totaling more than \$2.3 million, he sent the checks to the Canadian attorney as requested. The Canadian attorney, as instructed, met with Conspirator 1 at the Beaumont Prison for endorsement of the checks. He was directed to take the negotiated checks to the Turks and Caicos Islands, deposit them in a trust account, and, among other things, pay the New York attorney \$550,000 for his retainer and costs. The Canadian attorney left the prison and flew to Turks and Caicos.¹⁸²

When the bankruptcy trustee learned that the accountant for the bankruptcy estate no longer had a valid POA, the trustee's attorney sought to discover what had happened, tracked down the Canadian lawyer in the Turks and Caicos within hours of his depositing more than \$2.3 million in tax refund checks, and was able to have the checks returned.¹⁸³

After his October 2015 arrest, Solomon was ordered to be detained pending trial. The court cited the nature of his offense, his extradition from Hungary, the lack of background and personal information about him, his previous removal from the United States, and his convictions for similar offenses as reasons for his continued detention.¹⁸⁴ Solomon entered a guilty plea for the conspiracy charge on November 30, 2015.¹⁸⁵

Solomon was sentenced to five years in prison, followed by three years of supervised release. Upon completion of his imprisonment, and as a condition of supervised release, Solomon is to be surrendered to the Department of Homeland Security Bureau of Immigration and Customs Enforcement for deportation.¹⁸⁶

¹⁸¹ *Id.*

¹⁸² *Id.*

¹⁸³ *Id.*

¹⁸⁴ E.D. Va. Detention Order Pending Trial filed Oct. 29, 2015.

¹⁸⁵ E.D. Va. Plea Agreement filed November 30, 2015.

¹⁸⁶ E.D. Va. Judgment filed Feb. 9, 2016.





Advancing Oversight of America's Tax System

TIGTA's Office of Inspections and Evaluations (I&E) conducts responsive and timely 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. The Office of Inspections and Evaluations is responsible for conducting evaluations of IRS programs, conducting data and trend analysis, and recommending changes in programs, procedures, policies and regulations.

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

The Internal Revenue Service Needs to Set Meaningful Time Limits for Most Reasonable Accommodation Requests for Adaptive Technology

Federal agencies, including the IRS, are required by Section 501 of the Rehabilitation Act of 1973¹⁸⁷ and the Americans with Disabilities Amendments Act of 2008¹⁸⁸ to provide reasonable accommodations for employees with disabilities who need them to perform the duties of their position and enjoy the benefits and privileges of employment, unless to do so would cause undue hardship.

TIGTA found that the IRS took an average of 70 business days in Fiscal Years 2013 and 2014 to close requests for adaptive technology (e.g., an ergonomic keyboard or mouse, voice recognition software, or a headset that works with hearing aids) by IRS employees with non-paralytic orthopedic impairments, such as back pain, Carpal Tunnel Syndrome, or deafness.

The Department of the Treasury and the IRS have both established clear time limits for providing reasonable accommodations, *i.e.*, 20 business days for the Department of the Treasury and 15 business days for the IRS, unless there are extenuating circumstances, which are to be rare.¹⁸⁹ However, the IRS has designated 97 percent of all reasonable accommodation requests involving adaptive technology with the issue code 836, *Special Equipment & Assistive Device – IRAP*. All requests so designated have at least one extenuating circumstance,¹⁹⁰ making them exempt from a time limit.

Seventy-three percent of IRS employees who had completed an internal IRS reasonable accommodation survey were satisfied with the IRS's reasonable accommodation process.

¹⁸⁷ § 501, Pub. L. No. 93-112, 87 Stat. 355 (codified as amended in scattered sections of the 29 U.S.C.).

¹⁸⁸ Pub. L. No. 110-325 (Sept. 25, 2008).

¹⁸⁹ IRM 1.20.2.5.4.2(1), *Requests Involving Extenuating Circumstances* (June 24, 2013).

¹⁹⁰ TIGTA did not attempt to independently determine if the IRS has defined or designated extenuating circumstances correctly.



Thirty of 36 IRS employees that TIGTA interviewed who had requested adaptive technology accommodations indicated that they were generally satisfied with the IRS's reasonable accommodation process; however, 16 of the employees TIGTA interviewed stated delays resulted in downtime or inefficiencies in their work.

At the time the review was conducted, the IRS was assessing its reasonable accommodation procedures. The IRS was studying its inventory of FY 2014 closed reasonable accommodation requests by the types of solutions provided, completion time frames, and extenuating circumstance definitions. The IRS hoped to replace its tracking software with a program that is more user-friendly and can automatically generate reports that indicate when time standards for filing requests are about to be missed or have already passed.

Because the IRS was reevaluating its reasonable accommodation procedures, TIGTA did not make any recommendations in the report.

Reference No. 2016-IE-R003

Procedures to Protect Taxpayer Information at Offer in Compromise Public Inspection File Locations Should Be Enhanced

An Offer in Compromise (OIC) is an agreement between a taxpayer and the Federal Government settling a tax liability for less than the full amount owed. Treasury Department regulations¹⁹¹ authorize the IRS to settle a tax debt on one of three grounds: 1) doubt that more than the offered amount can be collected, 2) a verifiable doubt as to the amount owed, or 3) to promote effective tax administration.¹⁹² Both Executive Order 10386¹⁹³ and the Internal Revenue Code permit public inspection and copying of accepted OIC case files.¹⁹⁴ Accepted OIC hard copy case files are shipped to one of 10 locations around the country, based on the taxpayer's geographical residence, and should contain redacted and sanitized taxpayer and account information. To view the files, individuals must call the IRS in advance and request an appointment.

In FY 2014, the IRS accepted approximately 27,000 (40 percent) of the 68,000 OIC applications it received. TIGTA found that ineffective redaction practices put sensitive, legally protected taxpayer information at risk. At each of the 10 public inspection sites, TIGTA identified instances in which taxpayers' SSNs or Employee Identification Numbers had not been properly redacted and advised management to suspend public inspections until a full review could be completed. An October 2015 report by the Office of Privacy,

¹⁹¹ Treas. Reg. §301.7122-1.

¹⁹² The IRS can accept an OIC under the concept of "effective tax administration" in situations where collection in full could be achieved but would cause the taxpayer economic hardship or inequitable treatment.

¹⁹³ Exec. Order 10386, *Inspection of Files Covering Compromise Settlements of Tax Liability*, 17 FR 7685 (Aug. 22, 1952).

¹⁹⁴ 26 U.S.C. § 6103(k)(1).



Governmental Liaison, and Disclosure¹⁹⁵ also confirmed widespread redaction problems. Furthermore, since January 2010, the Small Business/Self-Employed Division conducted repeated reviews at the same three public inspection sites for adherence to standards, but did not perform oversight reviews at any of the other seven public inspection sites.

TIGTA determined that the redaction errors occurred for a number of reasons. First, the automated OIC transcript with the built-in automated redaction feature is not always used. IRS employees manually redact sensitive information that sometimes is not fully concealed by the mark-over, or overlook sensitive information, resulting in visible Tax Identification Numbers. Second, there is limited guidance made available to the public inspection site employees who maintain the physical files. Although not required to do so, some sites thoroughly review the entire case, while others perform only a cursory examination.

Based on the significance of the findings surrounding potential disclosure of sensitive, legally protected taxpayer information, TIGTA immediately notified the IRS of the redaction problems. In response, the IRS temporarily made the files unavailable for public inspection in order to properly redact all files. The IRS indicated that only after a physical review is completed of all files will they be made available again for public viewing.

Because the IRS took immediate action in response to the issues raised, TIGTA did not make any recommendations in the report. However, TIGTA intends to conduct follow-up work to determine whether the files have been properly redacted and whether any further actions are necessary. In addition, TIGTA plans to issue a second report that will focus on the completeness of the files, the costs of administering the program, and any potential efficiencies or cost savings. TIGTA anticipates making recommendations in its subsequent report.

Reference No. 2016-IE-R006

Select Taxpayer Assistance Centers Were Professional and Organized, and Sensitive Information and Equipment Were Properly Secured

Taxpayer Assistance Centers (TACs) traditionally provide taxpayers with face-to-face assistance to resolve tax issues, answer tax law questions, make adjustments to tax accounts, accept completed tax returns and payments, establish payment agreements for qualified individuals, and provide tax forms and publications. The FY 2015 Service Approach¹⁹⁶ continued from the prior year to identify and implement other opportunities for promoting online services so that TAC staff would be available for taxpayers who require face-to-face assistance.

¹⁹⁵ The Office of Privacy, Governmental Liaison, and Disclosure is an independent business unit within the IRS that reports to the Deputy Commissioner for Operations Support. Specifically, it processes Freedom of Information Act requests and educates IRS employees on disclosure responsibilities.

¹⁹⁶ IRS FY 2015 Service Approach explained what services were provided in the Field Assistance TACs the next fiscal year and what services the TACs no longer provided.



TIGTA found that the 34 TACs TIGTA visited were generally clean, well organized, uncluttered, and professional. At two locations, TIGTA observed people in long lines waiting for assistance, but the lines did not limit entry and egress to the buildings, and those that TIGTA observed were orderly. Fewer forms and publications were available in TACs than in previous years, but the IRS provided alternative ways to obtain forms. At seven TACs, some employees were not wearing the required name tags, and only 10 TACs displayed all of the current versions of required signs that provide information and directions to TAC customers. TIGTA found that the TACs had generally completed follow-up procedures to ensure that all payments and taxpayer correspondence shipped to other IRS facilities had been delivered, and that in most cases TAC employees had adequately secured IRS stamps and other material required for document authentication.

TIGTA did not make any recommendations in the report.

Reference No. 2016-IE-R001

Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

The objective of RRA 98 was to transform the IRS into a modern financial services organization. This broad legislation changed the IRS mission, organizational structure, and business focus while pursuing change in the organizational culture. Congress intended to transform the IRS from an “enforcement first” culture to a culture that values the kind of taxpayer service that helps taxpayers comply with their responsibilities.

Since FY 2010, several problems and challenges involving the IRS have given rise to congressional concerns.¹⁹⁷ As a result, overall reductions in discretionary Government spending reduced the annual IRS budget by several billion dollars. Therefore, several of the issues reported as significant problems by the IRS Restructuring Commission have resurfaced since the adoption of RRA 98, while other goals of the legislation have remained substantially unrealized.

Changes enacted in RRA 98 included provisions requiring the IRS to:

- Create an Oversight Board to assist in governance;
- Maintain a taxpayer-focused organizational structure;
- Achieve an 80 percent electronic filing rate for returns and information documents;
- Offer online personal accounts;
- Abstain from diverting training resources to meet other budget requirements;
- Participate in reducing tax law complexity; and
- Increase voluntary compliance through applied research.

¹⁹⁷ TIGTA, Ref. No. 2013-10-053, *Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review* (May 2013); TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division’s Conference in Anaheim, California* (May 2013); TIGTA, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (March 2015).



TIGTA recommended that the Commissioner of Internal Revenue ensure that all organizational changes implemented by offices reporting directly to a Deputy Commissioner or the Commissioner include a documented business case. In addition, TIGTA indicated that the Chief, Communications and Liaison, should contact the congressional tax-writing committees to determine whether the IRS should provide the required tax complexity report.

IRS management agreed with the recommendations.

Reference No. 2014-IE-014





Congressional Testimony

On March 8, 2016, Inspector General J. Russell George testified before the Senate Committee on Appropriations Subcommittee on Financial Services and General Government regarding the President's FY 2017 funding request for the IRS.

In his testimony, the Inspector General also addressed TIGTA's recent work related to the most significant challenges currently facing the IRS, and TIGTA's FY 2017 budget request.

He testified that IRS cuts in service have resulted in long wait times, abandoned calls, and taxpayers' having to redial the IRS toll-free telephone lines for service. He also reported that tax-related identity theft is another major challenge confronting the IRS.

He further testified that other threats to tax administration currently challenge the IRS. Based on TIGTA's review of the Get Transcript data breach, the IRS recently reported that there were an additional 390,000 suspicious accesses to taxpayers' accounts, as well as 295,000 unsuccessful attempts to access taxpayers' accounts, that it had not previously identified.

In addition, the Inspector General informed the committee that TIGTA continues to investigate a telephone impersonation scam in which approximately one million intended victims have received unsolicited telephone calls from criminals claiming to be IRS agents. As of March 1, 2016, more than 5,400 taxpayers had lost a reported \$29 million as victims of this scam.¹⁹⁸

Implementation of the Affordable Care Act has also presented challenges for the IRS. For example, TIGTA reported that during the 2015 Filing Season the IRS did not receive information that it needed to verify that individuals who claimed the PTC had actually purchased insurance through an Exchange.

TIGTA's FY 2017 proposed budget priorities include assessment of the IRS's implementation of the Affordable Care Act; identity-theft detection and prevention; international tax compliance; and expansion of its oversight activities related to cybersecurity. In addition, TIGTA'S continuing priorities include: investigating allegations of serious misconduct and criminal activity by IRS employees; ensuring that IRS employees are safe; ensuring that IRS facilities, data, and infrastructure are secure and not impeded by threats of violence; and protecting the IRS against external attempts to corrupt or interfere with tax administration.

¹⁹⁸ Although these numbers were accurate at the time of the Inspector General's testimony, by March 31, 2016, more than 5,700 taxpayers had lost a reported \$31 million.





Audit Statistical Reports

Reports With Questioned Costs

TIGTA issued no audit reports with questioned costs during this semiannual reporting period. The phrase “questioned costs” means costs that are questioned because of:

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

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

Reports With Questioned Costs			
Report Category	Number	Questioned Costs ¹⁹⁹ (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	9	\$45,167	\$0
2. Reports issued during the reporting period	0	\$0	\$0
3. Subtotals (Item 1 plus Item 2)	9	\$45,167	\$0
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	0	\$0	\$0
b. Value of costs not disallowed	0	\$0	\$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	9	\$45,167	\$0
6. Reports with no management decision within six months of issuance	9	\$45,167	\$0

¹⁹⁹ “Questioned costs” includes “unsupported costs.”



Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued two audit reports during this semiannual reporting period with the recommendation that funds be put to better use.²⁰⁰ 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, e.g., Earned Income Tax Credit; or
- Any other savings that are specifically identified.

The phrase “management decision” means the evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions 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	2	\$37,694
3. Subtotals (Item 1 plus Item 2)	2	\$37,694
4. Reports for which a management decision was made during the reporting period		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	2	\$37,694
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	0	\$0
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 six months of issuance	0	\$0

²⁰⁰ See Appendix II for identification of audit report 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: Ensuring the accuracy of the total tax, penalties, and interest paid to the Federal Government.

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 laws, regulations, 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 accidental or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation.

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

Reports With Additional Quantifiable Impact on Tax Administration			
Outcome Measure Category	Number of Reports ²⁰¹	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	3	30,668	\$495,375
Revenue Protection	5	93,083	\$1,829,016
Reduction of Burden on Taxpayers	2	55,535	\$297
Taxpayer Rights and Entitlements at Risk	5	21,963	\$4,303
Taxpayer Privacy and Security	0	0	\$0
Inefficient Use of Resources	0	0	\$0
Reliability of Management Information	3	0	\$8,035,840
Protection of Resources	0	0	\$0

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

- Increased Revenue: Reference Numbers 2016-40-009, 2016-30-011, and 2016-40-027;
- Revenue Protection: Reference Numbers 2016-40-008 and 2016-40-027;
- Taxpayer Burden: Reference Number 2016-30-011; and
- Reliability of Information: Reference Number 2016-30-005.

The following report contained quantifiable impacts for the Protection of Resources and Reliability of Information: Reference Number 2016-10-029.

²⁰¹ See Appendix II for identification of audit reports involved.



Investigations Statistical Reports

Significant Investigative Achievements	
October 1, 2015 – March 31, 2016	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,462
Complaints against Non-Employees	3,531
Total Complaints/Allegations	5,993
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	2,420
In Process within TIGTA ²⁰²	796
Referred to IRS for Action	533
Referred to IRS for Information Only	1,317
Referred to a Non-IRS Entity ²⁰³	1
Closed with No Referral	719
Closed Associated with Prior Investigation	188
Closed with All Actions Completed	19
Total Complaints	5,993
Investigations Opened and Closed	
Total Investigations Opened	1,443
Total Investigations Closed	1,381
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	0
Contract Fraud and Overpayments Recovered	0
Court-Ordered Fines, Penalties, and Restitution	\$12,144,710
Out-of-Court Settlements	0
Potentially Compromised by Bribery	0
Tax Liability of Taxpayers Who Threaten and/or Assault IRS Employees	\$1,605,634
IRS Assets and Resources Protected Against Malicious Loss	\$130,054
Total Financial Accomplishments	\$13,880,398

²⁰² Complaints for which final determination had not been made at the end of the reporting period.

²⁰³ 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	15	43	58
Referred – Declined for Prosecution	234	137	371
Referred – Pending Prosecutorial Decision	20	39	59
Total Criminal Referrals²⁰⁴	269	219	488
No Referral	371	477	848
Criminal Dispositions ²⁰⁵			
Criminal Disposition	Employee	Non-Employee	Total
Guilty	19	17	36
Nolo Contendere (no contest)	1	2	3
Pre-trial Diversion	1	3	4
Deferred Prosecution ²⁰⁶	0	0	0
Not Guilty	0	0	0
Dismissed	3	1	4
Total Criminal Dispositions	24	23	47
Administrative Dispositions on Closed Investigations ²⁰⁷			
Administrative Disposition	Total		
Removed / Terminated	14		
Suspended / Reduction in Grade	52		
Resigned / Retired / Separated Prior to Adjudication	52		
Oral or Written Reprimand / Admonishment	79		
Clearance Letter / Closed, No Action Taken	109		
Alternative Discipline / Letter with Cautionary Statement / Other	114		
Non-Employee Actions ²⁰⁸	299		
Total Administrative Dispositions	719		

²⁰⁴ Criminal referrals include both Federal and State dispositions.

²⁰⁵ Final criminal dispositions during the reporting period. These 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.

²⁰⁶ Generally in a deferred prosecution, the defendant accepts responsibility for his or 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.

²⁰⁷ Final administrative dispositions during the reporting period. These data may pertain to investigations referred administratively in prior reporting periods and do not necessarily relate to the investigations closed in the Investigations Opened and Closed table. These data, as reported, reflect a change in the way administrative dispositions were previously categorized.

²⁰⁸ Administrative actions taken by the IRS against non-IRS employees.



Appendix I

Statistical Reports – Other

Audit Reports With Significant Unimplemented Corrective Actions

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

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2011-20-046	Security for Taxpayer Data and IRS Employees	May 2011	11/15/16	<p><i>Access Controls for the Automated Insolvency System Need Improvement</i></p> <p><u>F-1, R-1.</u> 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.</p>
2013-40-009	Fraudulent Claims and Improper Payments	December 2012	09/15/16	<p><i>Many Taxpayers Are Still Not Complying With Non-cash Charitable Contribution Reporting Requirements</i></p> <p><u>F-1, R-2.</u> Capture the contribution date, donee signature, acknowledgement date, Declaration of Appraiser, and type of property donated from Forms 8283 and develop processes to use the information to ensure that taxpayers are meeting the requirements for claiming deductions for non-cash charitable contributions.</p>
2013-40-122	Fraudulent Claims and Improper Payments	September 2013	06/15/17	<p><i>Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds</i></p> <p><u>F-1, R-1.</u> Implement a process to deactivate Individual Taxpayer Identification Numbers (ITIN) assigned to individuals prior to January 1, 2013, who no longer have a tax-filing requirement.</p>
2014-10-033	Providing Quality Taxpayer Service Operations	June 2014	09/30/16 09/30/16 09/30/16	<p><i>The Taxpayer Advocate Service Can Improve the Processing of Systemic Burden Cases</i></p> <p><u>F-1, R-1.</u> Reissue guidance to explain the requirement to only contact authorized representatives when applicable, and emphasize this in future training.</p> <p><u>F-1, R-3.</u> Review the results of sample findings and incorporate lessons learned into future training.</p> <p><u>F-3, R-2.</u> Re-emphasize to personnel the importance of ensuring the accuracy of criteria, primary core issues, and relief codes to improve the accuracy of information that is used to make managerial decisions and what is reported to Congress and the public.</p>



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2014-40-084	Improving Tax Systems and Online Services	September 2014	01/15/17	<i>A Service-Wide Strategy Is Needed to Increase Business Tax Return Electronic Filing</i> F-2, R-1. Develop a less burdensome electronic signature process for businesses e-filing employment tax returns using the Modernized e-file system.
2014-20-088	Improving Tax Systems and Online Services	September 2014	03/25/17	<i>The Information Reporting and Document Matching Case Management System Could Not Be Deployed</i> F-1, R-2. Ensure that the Information Reporting And Document Matching Case Management (IRDMCM) System requirements are completely identified.
2015-40-012	Fraudulent Claims and Improper Payments	February 2015	06/15/16 06/15/16	<i>Processes Do Not Ensure That Corporations Accurately Claim Carryforward General Business Credits</i> F-1, R-1. Verify whether the 3,285 corporate filers TIGTA has identified as having a questionable carryforward amount are entitled to claim the carryforward amount. F-4, R-1. Verify whether taxes were affected for the 1,411 corporate filers TIGTA identified as having an incorrect Eligible Small Business designation.
2015-40-023	Tax Compliance Initiatives	March 2015	04/15/16	<i>Processes Are Needed to Link Third-Party Payers and Employers to Reduce Risks Related to Employment Tax Fraud</i> F-2, R-1. Develop processes and procedures to ensure that Form 8655 authorization information captured in the IRS's systems is accurate, and correct the errors associated with the 11 Forms 8655 TIGTA identified.
2015-40-024	Providing Quality Taxpayer Service Operations	March 2015	09/15/16	<i>Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds</i> F-1, R-1. Complete an analysis of identity-theft case reassignments, and revise inventory management processes to reduce the number of times cases are reassigned.
2015-33-019	Implementing the Affordable Care Act and Other Tax Law Changes	March 2015	11/15/16	<i>The Affordable Care Act: Processes Have Been Implemented to Administer the Patient-Centered Outcomes Research Fee, but Controls Need Improvement to Ensure Filing Compliance</i> F-1, R-2. Based on the National Association of Insurance Commissioners and Department of Labor database analysis results, identify a population of Form 720 Patient-Centered Outcomes Research fee nonfilers to send notices. Based on the response to these notices, determine if additional enforcement actions are required for these potential Form 720 nonfilers.
2015-10-025	Tax Compliance Initiatives	March 2015	01/15/17	<i>Status of Actions Taken to Improve the Processing of Tax-Exempt Applications Involving Political Campaign Intervention</i> F-1, R-2. If the Optional Expedited Process for Internal Revenue Code (I.R.C.) § 501(c)(4) organizations becomes a permanent process, the IRS should consider providing this option to additional organizations with similar political campaign intervention limitations.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2015-30-037	Tax Compliance Initiatives	May 2015	09/15/16	<i>Automated Underreporter Program Tax Assessments Have Increased Significantly; However, Accuracy-related Penalties Were Not Always Assessed When Warranted</i> F-2, R-1. Evaluate the effectiveness of the revisions to the Computer Paragraph 2000 Notice and the potential impact it has had on taxpayer satisfaction and compliance.
2015-30-052	Globalization	July 2015	09/30/16 07/15/16	<i>Improvement Is Needed in Compliance Efforts to Identify Unsupported Claims for Foreign Tax Credits</i> F-2, R-1. Develop a compliance strategy to address the risks identified with the Foreign Tax Credit (FTC), including the issues of taxpayers' receiving both the credit and the deduction for the same foreign tax payments, and taxpayers' claiming the FTC without the proper third-party information return documentation. F-3, R-2. Improve education, outreach, and enforcement activities to correct the paid tax preparer issues identified in this report related to the FTC.
2015-30-056	Globalization	July 2015	09/30/16 09/30/16 04/15/17	<i>Improvements Are Needed to Verify Taxpayer Claims for Exemption From United States Social Security Taxes Under Totalization Agreements</i> F-1, R-1. Use existing procedures to work with the Social Security Administration (SSA) on establishing a process to periodically acquire Certificate of Coverage data. F-1, R-2. Coordinate with the SSA Competent Authority to request data from countries with which the United States has Totalization Agreements related to foreign social security taxes paid by American citizens, resident aliens, or withheld and paid by American employers, that would help the IRS ensure compliance with the U.S. Social Security tax laws. F-1, R-3. Use the data obtained from the other Totalization Agreement countries and the SSA to identify noncompliance with payment of U.S. Social Security and Medicare taxes.
2015-10-059	Providing Quality Taxpayer Service Operations	July 2015	07/15/16 09/15/16	<i>Additional Documentation Is Needed to Support Office of Appeals Penalty Abatement Decisions</i> F-1, R-1. Provide training to Appeals personnel on the requirements instructing them to clearly document the reasons for abatement decisions, including justification for partial abatement percentages and specific hazards of litigation associated with an abatement case. F-2, R-2. Review the delegated settlement authority to Appeals Officers and Settlement Officers to address the risk associated with allowing unlimited abatements without managerial review for some Appeals staff.
2015-20-060	Improving Tax Systems and Online Services	July 2015	06/15/16	<i>The Return Review Program Enhances the Identification of Fraud; However, System Security Needs Improvement</i> F-1, R-1. Ensure that IRS personnel completing Federal Information Security Management Act system classifications are familiar with the requirements for each level of classification.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2015-20-073	Security for Taxpayer Data and IRS Employees	September 2015	07/15/16 07/15/16	<i>Inadequate Early Oversight Led to Windows Upgrade Project Delays</i> <u>F-1, R-2.</u> Ensure that enterprise-wide information technology maintenance and upgrade efforts going forward follow the Enterprise Life Cycle, as prescribed by IRS policy, to mitigate potential delays and to ensure project transparency and accountability. <u>F-1, R-3.</u> Require appropriate Executive Steering Committees to oversee enterprise-wide information technology maintenance and upgrade efforts with regular project reviews and executive approvals.
2015-40-082	Taxpayer Protection and Rights	September 2015	10/15/16 02/15/17 10/15/16 10/15/16	<i>Processes Are Being Established to Detect Business Identity Theft; However, Additional Actions Can Help Improve Detection</i> <u>F-1, R-1.</u> Ensure that processes and procedures are in place to lock the business tax accounts associated with suspicious Employer Identification Numbers (EIN). <u>F-1, R-2.</u> Establish a systemic process to identify tax returns filed using an EIN of a business not having a filing requirement, to ensure the legitimacy of the filing and any refund claimed. <u>F-2, R-1.</u> Evaluate the potential for expanding State Suspicious Filer information sharing agreements to include suspicious or potentially fraudulent business tax return filings. <u>F-3, R-1.</u> Continue to develop and offer additional outreach material that directly informs businesses about business identity theft, the risks involved, how to protect themselves, and whom to contact if they suspect their business's identity has been stolen.
2015-40-089	Achieving Program Efficiencies and Cost Savings	September 2015	12/15/16 09/15/16 09/15/16 10/15/16	<i>Additional Actions to Enforce Payment Card Reporting Requirements Could Reduce the Tax Gap</i> <u>F-1, R-1.</u> Establish a process to identify and enforce backup withholding requirements on payers submitting Form 1099-K with missing or incorrect payee Tax Identification Numbers (TIN). <u>F-1, R-2.</u> Ensure that the payers that submitted the 10,216 Forms 1099-K that TIGTA identified with missing TINs are held liable for the backup withholding that was not withheld from the payees. <u>F-2, R-2.</u> Assess penalties on payers that do not comply with Form 1099-K reporting requirements. <u>F-4, R-1.</u> Add an indicator on the TIN Matching Program alerting a payer of a payee's use of a deceased taxpayer's TIN.



Other Statistical Reports

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

Issue	Result for TIGTA
<p>Access to Information</p> <p>Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	<p>As of March 31, 2016, there were no instances where information or assistance requested by the Office of Audit was refused.</p>
<p>Disputed Audit Recommendations</p> <p>Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of March 31, 2016, there were no instances where significant recommendations were disputed.</p>
<p>Revised Management Decisions</p> <p>Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	<p>As of March 31, 2016, no significant management decisions were revised.</p>
<p>Audit Reports Issued in the Prior Reporting Period With No Management Response</p> <p>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.</p>	<p>As of March 31, 2016, there were no prior reports where management's response was not received.</p>
<p>Review of Legislation and Regulations</p> <p>Review existing and proposed legislation and regulations and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 206 proposed regulations and legislative requests during this reporting period.</p>



Evaluation 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	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2013-IE-R008	August 2013	1/15/2017	The Internal Revenue Service Needs to Improve the Comprehensiveness, Accuracy, Reliability, and Timeliness of the Tax Gap Estimate F-2, R-1, P-1. The Director, Office of Research, Analysis and Statistics, should develop processes and procedures to ensure compliance with applicable Office of Management and Budget (OMB) standards to improve the overall confidence that can be placed in the accuracy and reliability of the Tax Gap estimate. This includes developing a method to estimate the total costs for performing each Tax Gap estimate and study. This information will assist decision makers in determining the methods and frequency of future studies.



Appendix II

Audit Products

October 1, 2015 - March 31, 2016

Audit Products²⁰⁹	
Reference Number	Report Title
October 2015	
2016-13-001	Affordable Care Act: Health Insurers Were Generally Tax Compliant
2016-40-003	Improvements Are Needed in the Identity Protection Specialized Unit to Better Assist Victims of Identity Theft (Taxpayer Rights and Entitlements: 9,131 taxpayer accounts impacted; Taxpayer Burden: 410 taxpayer accounts impacted)
2016-20-002	Measurable Agreements on Security Controls Are Needed to Support the Enterprise Storage Services Solution
November 2015	
2016-30-004	Trends in Compliance Activities Through Fiscal Year 2014
2016-40-006	Improvements Are Needed to Better Ensure That Refunds Claimed on Potentially Fraudulent Tax Returns Are Not Erroneously Released (Revenue Protection: \$231,353,665 impacting 84,540 taxpayer accounts)
2016-40-007	Improved Tax Return Filing and Tax Account Access Authentication Processes and Procedures Are Needed
December 2015	
2016-40-008	Continued Refinement of the Return Review Program Identity-Theft Detection Models Is Needed to Increase Detection (Revenue Protection: \$13,783,034 impacting 325 taxpayer accounts; Taxpayer Rights and Entitlements: \$354,109 impacting 113 taxpayer accounts)
2016-30-005	Accounting and Controls Need to Be Improved for Excess Collections (Reliability of Information: \$7,572,331,337)
2016-40-009	Processes Are Needed to Ensure Reliability of Federal Unemployment Tax Certification Files and to Work Multi-State Cases (Increased Revenue: \$91,738,736 impacting 5,308 taxpayer accounts; Taxpayer Rights and Entitlements: \$3,162,599 impacting 12,171 taxpayer accounts)
2016-10-010	The Office of Chief Counsel's Disciplinary Process Is Generally Effective
January 2016	
2016-10-013	Review of the Internal Revenue Service's Purchase Card Violations Report and the Status of Government Charge Card Recommendations
2016-10-014	Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2015 Annual Accounting of Drug Control Funds and Related Performance
February 2016	
2016-30-011	Direct Debit Installment Agreement Procedures Addressing Taxpayer Defaults Can Be Improved (Increased Revenue: \$314,860,040; Taxpayer Burden: \$297,054 impacting 55,125 taxpayer accounts)

²⁰⁹ Five Sensitive But Unclassified reports were issued during this semiannual reporting period that are not included in this list of Audit Products.



2016-20-019	Management Oversight of the Tier II Environment Backup and Restoration Process Needs Improvement
2016-40-023	Continued Inconsistent Use of Over-age Correspondence Lists Contributes to Taxpayer Burden and Unnecessary Interest Payments
2016-1C-015	Audit of the Contractor's Home Office Proposed Allocation Amounts on Unsettled Flexibly Priced Contracts for Fiscal Year 2009
2016-1C-017	Audit of the Contractor's Defense Information Technology Proposed Amounts on Unsettled Flexibly Priced Contracts for Fiscal Years 2009 and 2010 (Cage Code: 52939)
2016-1C-016	Audit of the Contractor's Corporate Proposed Allocation Amounts on Unsettled Flexibly Priced Contracts for Fiscal Years 2009 and 2010
2016-1C-018	Audit of the Contractor's North American Public Sector Proposed Allocation Amounts on Unsettled Flexibly Priced Contracts for Fiscal Years 2009 and 2010
March 2016	
2016-13-021	Affordable Care Act: Controls Over Financial Accounting for the Premium Tax Credit Should Be Improved (Reliability of Information: \$447,000,000)
2016-10-020	Status of the Implementation of Recommendations Related to Conference Spending
2016-40-028	Revising Tax Debt Identification Programming and Correcting Procedural Errors Could Improve the Tax Refund Offset Program (Revenue Protection: \$1,490,896,528 impacting 1,313 taxpayer accounts; Taxpayer Rights and Entitlements: \$780,474 impacting 502 taxpayer accounts)
2016-43-033	Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season (Funds Put to Better Use: \$22,185,990; Taxpayer Rights and Entitlements: \$5,390 impacting 46 taxpayer accounts)
2016-40-034	Interim Results of the 2016 Filing Season



Appendix III

TIGTA's Statutory Reporting Requirements

TIGTA issued two audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2016, TIGTA will complete its 15th round of statutory reviews that are required annually by RRA 98. It will also complete its annual reviews of the Federal Financial Management Improvement Act (FFMIA) of 1996, the Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions, the Government Charge Card Abuse Prevention Act of 2012, Executive Order 13520 – Reducing Improper Payments and Eliminating Waste in Federal Programs, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The following table reflects the FY 2016 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) Section (§) 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 they prefer their representatives be contacted.	In planning 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 fieldwork phase.
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 planning phase.



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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 fieldwork 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.	In planning phase.
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees, and other sources.	Statistical results on the number of taxpayer complaints received are shown on page 67.



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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. 2016-20-019, February 2016 Security Reviews: Ref No. 2016-20-002, October 2015
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.



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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 <i>Drug Control Accounting</i> , dated May 1, 2007.	Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.	Ref. No. 2016-10-014, January 2016 The TIGTA review indicated that the IRS asserted that the methodology used to establish its performance targets for the current year is reasonable given its past performance and is consistent with its documented policy on developing performance targets. However, TIGTA found that although the IRS did marginally increase its targets for FY 2016 in all three target areas, the new goals are not consistent with its documented methodology that requires the goals to be based on an average of actual performance. Otherwise, based on TIGTA's review, nothing came to our attention that caused us to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report are not fairly presented in all material respects in accordance with ONDCP's established criteria.
Government Charge Card Abuse Prevention Act of 2012 Pub. L. No. 112-194 (October 2012).	Requires TIGTA to report on IRS progress in implementing purchase and travel card audit recommendations.	Ref. No. 2016-10-013, January 2016 The IRS properly identified and reported 13 instances of confirmed purchase card misuse and two instances of purchase card misuse pending final agency action. TIGTA's independent review found one additional instance of potential purchase card fraud and four additional instances of purchase card misuse pending investigation or final agency action.
Improper Payments Elimination and Recovery Act of 2010 (IPERA) 31 U.S.C. § 3321	Requires TIGTA to assess the IRS's compliance with improper payment requirements.	In fieldwork phase.



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 or her sole discretion, may establish a procedure that will be used to



decide whether an individual should be referred to the Commissioner for determination. Any mitigation determination by the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.



Appendix V

Implementing Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act Inspector General Peer Review Activity October 1, 2015 Through March 31, 2016

Peer Reviews Conducted of TIGTA's Office of Audit:

A peer review was conducted of the TIGTA Office of Audit during this reporting period by the U.S. Department of Homeland Security, Office of Inspector General, and completed in December 2015.

No Peer Reviews Conducted by TIGTA's Office of Audit:

No peer reviews were conducted by the TIGTA Office of Audit during this reporting period.

No Peer Reviews Conducted of TIGTA's Office of Investigations:

No peer reviews were conducted of the TIGTA Office of Investigations during this reporting period.

No Peer Reviews Conducted by TIGTA's Office of Investigations:

No peer reviews were conducted by the TIGTA Office of Investigations during this reporting period. A final report was issued on the peer review of the U.S. Department of Transportation, Office of Inspector General.

No Peer Reviews Conducted of TIGTA Office of Inspections and Evaluations

No peer reviews were conducted of the TIGTA Office of Inspections and Evaluations during this reporting period.

No Peer Reviews Conducted by TIGTA Office of Inspections and Evaluations


No peer reviews were conducted by the TIGTA Office of Inspections and Evaluations during this reporting period.



Appendix VI

Data Tables Provided by the Internal Revenue Service

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 October 1, 2015 through March 31, 2016. 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.

 <p>DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D.C. 20224</p> <p>CHIEF HUMAN CAPITAL OFFICER</p> <p>April 6, 2016</p> <p>MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p>FROM: Lia Colbert Amalia C. Colbert Director, Workforce Relations Division</p> <p>SUBJECT: Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress</p> <p>In response to your memorandum on January 20, 2016, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. section 7803(d)(1)(E) and 26 U.S.C. section 7803(d)(2)(A)(ii) for October 1, 2015, through March 31, 2016.</p> <ul style="list-style-type: none">• Report of Employee Misconduct by Disposition Groups• Report of Employee Misconduct – National Summary• Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS) <p>The attached tables contain information about:</p> <ul style="list-style-type: none">• Alleged misconduct reported to IRS managers• Disposition of the allegations resolved during the period• Status of the inventory as of March 31, 2016 <p>The tables contain information about alleged misconduct that both TIGTA and IRS management investigated. The IRS received these allegations from taxpayers, IRS employees, and other sources, and recorded them in ALERTS.</p> <p>The Summary of Substantiated Section 1203 Allegations contains information on the disposition of substantiated Section 1203 allegations. During this period, IRS managers substantiated 71 Section 1203 allegations and removed nine (9) employees as a result. Five (5) employees retired or resigned before a final administrative action by management. In four (4) of the removals, IRS management considered information in a TIGTA investigation. The Commissioner mitigated proposed removals in 13 cases. The remaining 42 substantiated allegations are still in the adjudication process.</p>	<p>2</p> <p>If you have any questions, please contact Sheila Barbee, Acting Associate Director, LRER Field Operations at (202) 317-3307.</p> <p>Attachments (3)</p> <p>cc: John A. Koskinen, Commissioner of Internal Revenue John M. Dalrymple, Deputy Commissioner for Services and Enforcement Jeffrey Tribiano, Deputy Commissioner for Operations Support Nina Olson, National Taxpayer Advocate Elita Christiansen, Executive Director, Equity, Diversity and Inclusion Terry Lemons, Chief, Communications & Liaison Mark Kaizen, Associate Chief Counsel (GLS) Daniel T. Riordan, Chief Human Capital Officer</p>
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The Following Tables Are Provided by the IRS.



Reports of Employee Misconduct Summary by Disposition Groups

Period Covering October 1, 2015 through March 31, 2016

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Totals
REMOVAL (PROBATION PERIOD COMPLETE)	20	46	8	0	74
REMOVAL AT OPM DIRECTION	0	0	0	2	2
PROBATION/SEPARATION	0	46	0	4	50
SEPARATION OF TEMP	0	3	0	0	3
RESIGN.,RET., ETC. (SF50 NOTED)	10	12	4	0	26
RESIGN. RET., ETC. (SF50 NOT NOTED)	19	104	30	1	154
SUSP., 14 DAYS OR LESS	43	109	70	0	222
SUSP., MORE THAN 14 DAYS	14	41	14	0	69
INDEFINITE SUSPENSION	1	10	0	0	11
REPRIMAND	43	140	139	2	324
ADMONISHMENT	33	145	242	1	421
WRITTEN COUNSELING	46	174	114	8	342
ORAL COUNSELING	0	67	8	0	75
A D: IN LIEU OF REPRIMAND	8	11	15	0	34
A D: IN LIEU OF SUSPENSION	8	19	22	0	49
CLEARANCE LETTER	66	84	4	0	154
CWA CAUTIONARY LTR	81	150	58	36	325
CWA LETTER	54	85	16	3	158
TERMINATION FOR ABANDONMENT OF POSITION	0	11	0	0	11
CASE SUSPENDED PENDING EMPLOYEE RETURN TO DUTY	0	0	-	0	0
CLOSED - SUPPLEMENTAL REQUESTED	0	0	0	0	0
FORWARDED TO TIGTA	0	1	0	0	1
TOTAL	446	1258	744	57	2505

Note: Columns containing numbers of three or less and protected by I.R.C. Section 6103 are annotated with a dash and the total for such column does not reflect the section 6103 material withheld.



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

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.

A D is an abbreviation for "Alternative Discipline."

Extract Date: April 1, 2016



Reports of Employee Misconduct National Summary

Period Covering October 1, 2015 through March 31, 2016

Inventory Case Type	Open Inventory	Conduct Cases Received	Cases Closed			Ending Inventory
			Conduct Issues	Cases Merged with Other Cases	Non-Conduct Issues	
ADMINISTRATIVE CASE	546	1504	1507	24	63	456
EMPLOYEE CHARACTER INVESTIGATION	22	74	72	2	0	22
EMPLOYEE TAX COMPLIANCE CASE	561	1083	802	17	0	825
TIGTA REPORT OF INVESTIGATION	500	636	540	8	0	588
Total	1629	3297	2921	51	63	1891

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

Extract Date: April 1, 2016

TIGTA Report of Investigation - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred a Report of Investigation 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 a New Background Investigation Case investigation into an employee's background that is referred to management for appropriate action.



Summary of Substantiated I.R.C. Section 1203 Inquiries Recorded in ALERTS

Period Covering October 1, 2015 through March 31, 2016

§ 1203 Violation	*Removals	*Resigned/ Retired	Probation Separation	Removed On Other Grounds	*Penalty Mitigated	In Personnel Process	Total
§ 1203(b)(10) Threat of Audit/Personal	1	0	0	0	0	0	1
§ 1203(b)(3) Civil Rights/Const Viol	1	0	0	0	0	0	1
§ 1203(b)(4) Concealed Work Error	0	0	0	0	0	2	2
§ 1203(b)(8) Willful Untimely Return	-	-	0	0	8	13	21
§ 1203(b)(9) Willful Understated Tax	4	-	0	-	5	27	36
Total	6	0	0	0	13	42	61

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

Note: Columns containing numbers of three or less and protected by I.R.C. Section 6103 are annotated with a dash and the total for such column does not reflect the section 6103 material withheld.

*These cases are included in the totals of table above entitled "Reports of Employee Misconduct Summary by Disposition Groups."

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

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: April 1, 2016.



Glossary of Acronyms

APTC	Advance Premium Tax Credit
DDIA	Direct debit installment agreement
EIC	Earned Income Credit
EPD	Exchange Periodic Data
ERS	Error Resolution System
ESS	Enterprise Storage Services
FY	Fiscal Year
HHS	Department of Health and Human Services
I&E	Office of Inspections and Evaluations
IPIA	Improper Payment Information Act
IRFS	Intel Realty Financial Service
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigation
LLC	Limited Liability Company
NMF	Non–Master File
OA	Office of Audit
OEP	Office of Employee Protection
OI	Office of Investigations
OIC	Offer in Compromise
OIG	Office of the Inspector General
PII	Personally Identifiable Information
PIN	Personal Identification Number



POA	Power of Attorney
PTC	Premium Tax Credit
PY	Processing Year
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
RRP	Return Review Program
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TAS	Taxpayer Advocate Service
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year



ACRONYMS USED EXCLUSIVELY IN APPENDICES	
EIN	Employer Identification Number
FFMIA	Federal Financial Management Improvement Act
FTC	Foreign Tax Credit
I.R.C.	Internal Revenue Code
IPERA	Improper Payments Elimination and Recovery Act
ITIN	Individual Tax Identification Number
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
SSA	Social Security Administration

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DEPARTMENT OF THE TREASURY

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