

*Treasury Inspector General for Tax Administration*  
**SEMIANNUAL REPORT TO CONGRESS**

APRIL 1, 2017 – SEPTEMBER 30, 2017



# 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.

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# Inspector General's Message to Congress

It is my privilege to submit the Treasury Inspector General for Tax Administration's (TIGTA) Semiannual Report to Congress for the reporting period April 1, 2017 to September 30, 2017. Some of TIGTA's more notable achievements in the pursuit of its mission to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of Federal tax administration are highlighted in the various audits, investigations, and inspections and evaluations summarized in this report.



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 \$19 million. During this same period, TIGTA's Office of Audit has completed 61 audits, and its Office of Investigations has completed 1,483 investigations.

Once again, schemes involving tax fraud and identity theft are among the most significant challenges confronting the Federal system of tax administration. TIGTA's investigation of the IRS impersonation scam, the largest and most pervasive scam in our agency's history, has logged more than 2.1 million contacts from taxpayers reporting that they had received telephone calls from individuals claiming to be IRS employees. Typically, the impersonators tell the victims that they owe additional tax and that if they do not immediately pay they will be arrested, lose their driver's license, or face other adverse consequences. As of September 30, 2017, approximately 12,027 victims of this scam had reported more than \$60.7 million in total monetary losses.

TIGTA has used every possible approach to protect innocent people from becoming the victims of this scam. While many of the arrests have been made in the United States, the IRS impersonation scam involves multiple people and groups, including some from outside of the United States, so it is not entirely possible to "arrest" our way out of this problem. Educating people so they do not become victims in the first place is nearly as important as catching the criminals. To this end, TIGTA went above and beyond the classic law enforcement approach of devoting all of our resources into just the investigation and prosecution of those responsible. To date, we have arrested or charged over 90 individuals and five call centers that are located in India.

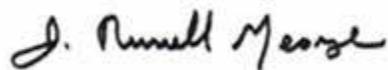
In addition, we continue to engage in media and public awareness outreach to warn people of the scam, and we have worked with private industry and major vendors such as Walmart, Target, and Apple, whose products or services were being used by the scammers to obtain and move the money into accounts that they controlled. Working collaboratively with our Federal, State, and local law enforcement partners, we have developed different procedures and technologies to help protect people from becoming victims. We cannot say exactly how many people we have protected, but we can say that, as a result of all of these efforts, the number of victims has been reduced by 90 percent when compared to the height of the scam last fall.

TIGTA's Office of Audit has completed many important audits during this reporting period, including one that evaluated the IRS's processes for identifying and assisting victims of employment identity theft. The audit found that IRS processes are not sufficient to identify all employment identity-theft victims. Another audit found that a reduced Automated Substitute for Return Program negatively affected collection and filing compliance. Further, our compliance trends report found that IRS enforcement actions are continuing to decline significantly.

Among the significant evaluations completed by TIGTA's Office of Inspections and Evaluations was a review of safety standard compliance at three IRS facilities.

Consistent with TIGTA's mission, we will continue working tirelessly with Congress, the Administration, the IRS, and all of our stakeholders on behalf of taxpayers to ensure that our Nation's tax administration system is efficient, effective, and fair.

Sincerely,

A handwritten signature in black ink that reads "J. Russell George". The signature is written in a cursive, slightly slanted style.

J. Russell George  
Inspector General

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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 Treasury Department 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 Treasury Department.

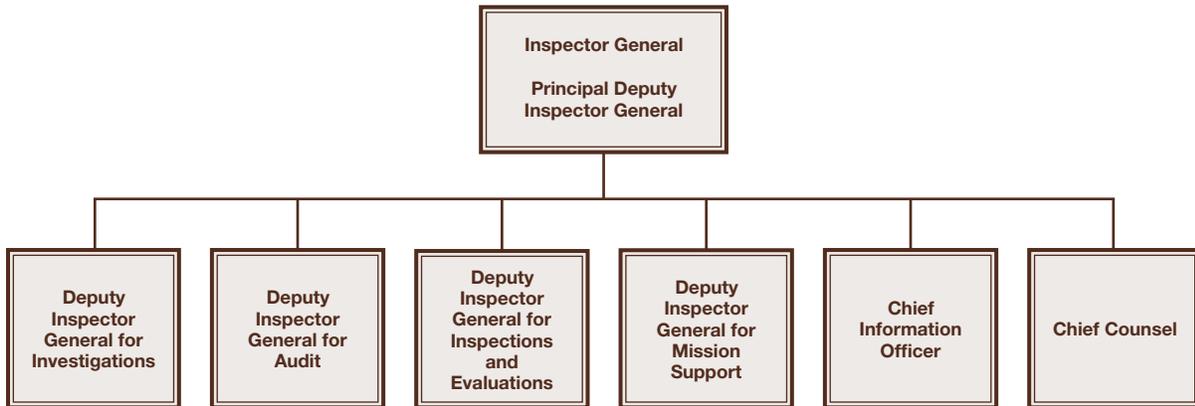
TIGTA's organizational structure is comprised of the Office of the Inspector General and six functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; the Office of Information Technology; and the Office of Chief Counsel (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 IRS employee improprieties and 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).<sup>1</sup> In addition to the standard authorities 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)<sup>2</sup> 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 (I.R.C.) § 7608(b)(2).

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1 5 U.S.C. app. (2012 & Supp. IV 2017).

2 Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 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. (2012)).

# TIGTA's Highlights

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

### Ten Individuals Indicted in Connection With IRS Impersonation Scam

On April 4, 2017, in the Eastern District of Arkansas, 10 individuals were charged in a superseding indictment with conspiracy to commit wire fraud in connection with a scheme to defraud by impersonating IRS employees.<sup>3</sup> Seven of the defendants were subsequently arrested in southern Florida on April 25, 2017,<sup>4</sup> by special agents from TIGTA and the Social Security Administration Office of the Inspector General.<sup>5</sup>

Two of the defendants named in the superseding indictment, Dennis Delgado Caballero and Jeniffer Valerino Nuñez, had been previously arrested in May 2016 and initially charged in the original indictment in June 2016. The seven individuals arrested on April 25, 2017, were: Yosvany Padilla, Ricardo Fontanella Caballero, Esequiel Bravo Diaz, Angel Chapotin Carrillo, Alejandro Valdes, Alfredo Echevarria Rios, and Elio Carballo Cruz.<sup>6</sup> According to the Department of Justice press release, all seven are Cuban nationals. The tenth defendant, Lazaro Hernandez Fleitas, remains at large.<sup>7</sup>

The superseding indictment alleges that, from about March 2015 to about May 2016, the 10 defendants knowingly and intentionally conspired with each other and others to devise and participate in a scheme to defraud and obtain money by means of false representations.<sup>8</sup>

As part of the conspiracy, unsuspecting taxpayers received telephone calls from persons who falsely represented themselves to be employees of the IRS and told the taxpayers that they owed money to the IRS for an outstanding tax debt when, in fact, they did not. The callers used various methods of intimidation and threats to convince their victims to pay money in order to resolve the supposed tax debt by going to nearby locations that offered wiring services, such as MoneyGram® or

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3 E.D. Ark. Superseding Indict. filed Apr. 4, 2017.

4 E.D. Ark. Crim. Docket as of Aug. 7, 2017.

5 U.S. Attorney's Office, E.D. Ark. Press Release dated Apr. 26, 2017.

6 E.D. Ark. Crim. Docket as of Aug. 7, 2017.

7 U.S. Attorney's Office, E.D. Ark. Press Release dated Apr. 26, 2017.

8 E.D. Ark. Superseding Indict. filed Apr. 4, 2017.

Walmart-2-Walmart Money Transfer®. The victims were provided with a fictitious IRS employee's name and the State where the money was to be sent. The victims then wired the money as instructed, and the defendants, using their fictitious IRS-employee identities, collected the wired money.<sup>9</sup>

The 10 defendants traveled to 30 different States to collect money wired by victims. Using approximately 80 different false identities, the defendants and their coconspirators received monies totaling over \$8.8 million from more than 7,000 victims.<sup>10</sup>

The U.S. Senate Special Committee on Aging reported that the May 2016 arrests of Dennis Delgado Caballero and Jeniffer Valerino Nuñez resulted from a complaint received by the committee's Fraud Hotline and subsequently forwarded to TIGTA. In October 2015, an individual contacted the committee and reported that her husband had been contacted by someone who claimed to be from the IRS and demanded immediate payment of alleged back taxes. The victim was instructed to drive to his local Walmart to wire almost \$2,000 via MoneyGram. On his way to Walmart, the victim crashed his car, but was so convinced that the scammer was an authentic IRS agent that he left the scene of the accident in order to obtain the payment and avoid the scammer's threats of possible legal action.<sup>11</sup>

Dennis Delgado Caballero pled guilty to conspiracy to commit wire fraud on May 4, 2017.<sup>12</sup> His sentencing date has not been set.<sup>13</sup> Nuñez pled guilty on July 21, 2017,<sup>14</sup> and her sentencing is scheduled for October 26, 2017.<sup>15</sup> Additional legal actions are anticipated for the remaining defendants.

### **Nevada Man Sentenced in a Telemarketing Fraud Scheme Targeting the Elderly**

On April 18, 2017, in the District of Nevada, Willie J. Montgomery was sentenced for his role in a telemarketing fraud scheme.<sup>16</sup> Montgomery pled guilty in October 2016

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9 *Id.*

10 *Id.*

11 Newsroom-United States Senator Susan Collins posted Apr. 28, 2017; United States Senate Special Committee on Aging Majority Press dated May 24, 2016.

12 E.D. Ark. Plea Agr. filed May 4, 2017.

13 E.D. Ark. Crim. Docket as of Aug. 7, 2017.

14 E.D. Ark. Plea Agr. filed July 21, 2017.

15 E.D. Ark. Crim. Docket as of Aug. 7, 2017.

16 D. Nev. Judgment filed Apr. 21, 2017.

to conspiracy to commit wire or mail fraud in connection with a telemarketing scheme that targeted victims over the age of 55.<sup>17</sup> Montgomery and two coconspirators, Reginald A. Lowe and Tanika Armstrong, were initially indicted and arrested in March 2016.<sup>18</sup>

According to the court documents, from November 2008 to September 2013, Montgomery, Lowe, and others devised a scheme to defraud and obtain money by means of false and fraudulent pretenses. In furtherance of the conspiracy, Montgomery, Lowe, and others obtained “lead sheets,” which identified persons who had previously entered sweepstakes, lotteries, or other prize-drawing contests, and who were thus thought to be susceptible to misrepresentations regarding potential winnings from a prize, sweepstakes, or lottery. They knew that these leads typically consisted of contact information for elderly or retirement-age people or others who were particularly vulnerable or susceptible to schemes.<sup>19</sup>

Using the lead sheet information, the conspirators, in the role of “talkers,” would contact potential victims by telephone and falsely represent to them that they had won prizes consisting of large amounts of cash or other high-value merchandise. In doing so, the talker would hold himself out as being an official or employee of a lottery/sweepstakes committee or a Government regulatory authority and would frequently represent himself to be an official or employee of the IRS. The talker would tell the victim that, in order to receive the prize, he/she must first send money as payment for taxes on prize winnings or other fees. Montgomery, Lowe, and their coconspirators knew at all times that the victims had not actually won any prizes or things of value and that they would receive nothing for their payments.<sup>20</sup>

The talker would direct the victim to send payment in the form of checks, money orders, U.S. currency, or other negotiable instruments via Western Union® or MoneyGram wire transfer, U.S. Postal Service, United Parcel Service (UPS®), or FedEx®. Montgomery and Lowe used individuals referred to as “runners” to retrieve the payments and deliver the money to them and their coconspirators. The runners were given a small percentage of the criminal proceeds.<sup>21</sup>

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17 D. Nev. Plea Agr. filed Oct. 25, 2016.

18 D. Nev. Indict. filed Mar. 16, 2016; D. Nev. Arrest Warrant filed March 23, 2016; D. Nev. Arrest Warrant filed March 24, 2016; D. Nev. Arrest Warrant filed March 25, 2016.

19 D. Nev. Plea Agr. filed Oct. 25, 2016.

20 *Id.*

21 *Id.*

The defendants caused victims to send them approximately \$96,983 via MoneyGram and at least \$366,238 via Western Union wire transfers. The defendants also fraudulently induced the victims to send a total of at least \$389,924 through the U.S. mail, UPS, and FedEx.<sup>22</sup>

During the course of the scheme, Montgomery's wife, Tanika Armstrong, was provided with money orders to deposit and convert to cash. Armstrong opened a bank account in the name of a limited liability company in order to launder the monetary instruments and conceal the criminally derived origins. Armstrong did so with full knowledge that the proceeds were fraudulently obtained.<sup>23</sup>

In total, the conspirators fraudulently obtained approximately \$1,175,670 from the scheme, which claimed at least 66 victims from 22 different States.<sup>24</sup>

Armstrong pled guilty in October 2016 to conspiracy to commit money laundering for her role in the scheme.<sup>25</sup> She was sentenced on April 10, 2017, to three years of probation and ordered to pay restitution in the amount of \$18,475.<sup>26</sup> Lowe also pled guilty in October 2016 and was scheduled for sentencing on January 25, 2017;<sup>27</sup> however, on or about January 14, 2017, Lowe passed away.<sup>28</sup>

Montgomery was sentenced to 88 months' imprisonment, followed by three years of supervised release. He was further ordered to pay restitution in the amount of \$1,163,220.21, and a forfeiture judgment was filed against him in the amount of \$1,175,670.21.<sup>29</sup> Montgomery is appealing his sentence.<sup>30</sup>

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22 *Id.*

23 D. Nev. Plea Agr. filed Oct. 25, 2016.

24 D. Nev. Plea Agr. filed Oct. 25, 2016.

25 D. Nev. Plea Agr. filed Oct. 25, 2016.

26 D. Nev. Judgment filed Apr. 12, 2017.

27 D. Nev. Crim. Docket as of Nov. 18, 2016.

28 D. Nev. Stipulation to Continue Sentencing Date filed Jan. 20, 2017.

29 D. Nev. Judgment filed Apr. 21, 2017.

30 D. Nev. Notice of Appeal filed Apr. 24, 2017.

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

### **Case Selection Processes Result in Billions of Dollars in Potential Employer Underreported Tax Not Being Addressed**

The Combined Annual Wage Reporting (CAWR) Program compares the employee wage and withholding information reported to the IRS on employment tax forms to withholding documents filed with the Social Security Administration (SSA). The purpose of the IRS-CAWR Program is to ensure that employers report the proper amount of employment taxes and Federal income tax withholding on their employment tax returns. This audit was initiated to evaluate whether the IRS-CAWR Program's document matching process accurately identifies and selects the most productive cases.

Billions of dollars of potential employer-underreported taxes are not being addressed because most discrepancy cases are not worked by the IRS. TIGTA's analysis of 137,272 Tax Year (TY) 2013 discrepancy cases found that the IRS worked only 23,184 (17 percent). The remaining 114,088 (83 percent) discrepancy cases that were not worked had a potential underreported tax difference of more than \$7 billion.

In addition, discrepancy case selection processes do not ensure that priority is given to discrepancy cases with the highest potential tax assessment. TIGTA analyzed the 114,088 discrepancy cases that were not worked to identify those 23,184 with the highest potential underreported tax amounts by case type. It turned out that these cases had total potential underreported tax of more than \$6.8 billion.

Further, TIGTA's analysis of the 114,088 TY 2013 unworked IRS-CAWR discrepancy cases showed that if the IRS had selected to work the 23,184 auto-generated cases with a higher average assessment potential, it would have selected cases with more than \$128 million in assessment potential. In addition to changing its selection methodology to work case types with the highest potential tax assessment, the IRS could further increase its return on investment by including prior-year discrepancy cases when working current-year discrepancy cases for the same employer. TIGTA's analysis found that 3,137 employers with discrepancy cases identified in TY 2013 also had discrepancy cases in TY 2012, with potential underreported tax totaling more than \$448 million for TY 2012.

TIGTA recommended that the IRS:

- Evaluate the current agreement and workload processes with the SSA, as required, and ensure that the IRS is expending its resources to work the most productive SSA-CAWR cases;

- Revise the case selection process to include auto-generated cases with the highest potential tax assessment and expand discrepancy case selection to include cases currently excluded from the systemic selection process;
- Review and prioritize programming enhancements;
- Take actions necessary to implement the proposed upgrade to modify the CAWR Automated Program<sup>31</sup> system so that it includes prior-year discrepancy cases when current-year discrepancy cases are selected for the same employer.
- Establish a systemic process to match data fields to perfect unpostable Forms W-3, *Transmittal of Wage and Tax Statements*;
- Update internal guidelines to include specific procedures on how to research and perfect CAWR unpostable cases; and
- Ensure that managerial reviews are performed as required to ensure that CAWR unpostable cases are properly researched and perfected.

IRS management agreed to six of TIGTA's seven recommendations. IRS management did not agree to include prior-year discrepancy cases when current-year discrepancy cases are selected for the same employer. However, it will consider employers that have a prior-year discrepancy case as part of the selection criteria for current-year cases.

**Reference No. 2017-40-038**

### **The Number of Employment-Related Identity-Theft Victims Is Significantly Greater Than Identified**

Employment-related identity theft (hereafter referred to as employment identity theft) occurs when an identity thief uses another person's identity to gain employment. Taxpayers may first realize that they are a victim of employment identity theft when they receive an IRS notice proposing a change to their tax liability due to a discrepancy in the income they reported on their tax return. The discrepancy (*i.e.*, underreported income) is identified as a result of the IRS's Automated Underreporter Program match of taxpayer income on third-party information returns (*e.g.*, Forms W-2, *Wage and Tax Statement*) to amounts reported by taxpayers on their individual income tax returns.

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31 A computer application that stores the CAWR inventory, correspondence, and reports; aids document preparation; and provides updates to the Business Master File. The system contains both IRS-CAWR and SSA-CAWR discrepancy cases.

This audit was initiated to evaluate the IRS's processes to identify and assist victims of employment identity theft. This includes placing an identity-theft marker on victims' tax accounts and notifying the SSA to ensure that individuals' Social Security benefits are not affected by the crime.

TIGTA found that IRS processes are not sufficient to identify all employment identity-theft victims. For example, 497,248 victims who did not have a tax account in Processing Year (PY) 2015 were not identified, even though identity thieves electronically filed tax returns with evidence that they used the victims' Social Security Numbers (SSN) to gain employment. For another 60,823 victims with tax accounts, the IRS did not update their accounts with an employment identity-theft marker.

In addition, IRS processes do not identify employment identity theft when processing paper tax returns. TIGTA reviewed a statistically valid sample of 292 paper tax returns filed in PY 2015 by individuals with an Individual Taxpayer Identification Number (ITIN). These tax return filers reported wages on 150 (51.4 percent) of the returns and attached a Form W-2, *Wage and Tax Statement*, indicating that they used someone's SSN to gain employment. As a result, TIGTA projects that the IRS failed to identify 272,416 victims of employment identity theft for the 685,737 paper tax returns filed by ITIN holders reporting wages in PY 2015.

TIGTA also found that the IRS does not have processes to identify employment identity theft in the IRS's Form W-2 perfection processes or to notify the SSA of the crime when both the victim's name and SSN are used by an ITIN holder.

TIGTA recommended that the IRS:

- Develop a process to notify the parents and legal guardians of dependents whose SSNs were misused;
- Correct programming to ensure that an identity-theft marker is placed on all victims' accounts for ITIN/SSN mismatches on electronically filed tax returns;
- Place an identity-theft marker on the accounts of the 60,823 victims who should have received them;
- Require ITIN paper tax return filers to attach Forms W-2 to their tax return;
- Develop procedures to identify employment identity theft on paper ITIN returns and add an identity-theft marker on valid SSN owners' tax accounts;
- Ensure that an identity-theft marker is placed on taxpayers' accounts when the Taxpayer Identification Number (TIN) Perfection unit determines that an ITIN holder, rather than the taxpayer, earned the income reported on Forms W-2; and

- Develop a process to notify the SSA when ITIN/SSN mismatches involve an ITIN holder using a victim's SSN and full or partial name to commit employment identity theft.

IRS management did not agree with five of TIGTA's recommendations. As a result, actions are not being taken to assist 548,968 victims of employment identity theft.

**Reference No. 2017-40-031**

# Promote the Economy, Efficiency, and Effectiveness of Tax Administration

TIGTA's Office of Audit 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 that the IRS faces.

The IRS's implementation of audit recommendations results in:

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

Each year, TIGTA identifies and addresses the IRS's major management and performance challenges. 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 April 2017 through September 2017

- Security Over Taxpayer Data and IRS Employees
- Improving Tax Compliance
- Reducing Fraudulent Claims and Improper Payments
- Improving Tax Systems and Expanding Online Services
- Providing Quality Taxpayer Service Operations
- Impact of Global Economy on Tax Administration
- Protecting Taxpayer Rights
- Achieving Program Efficiencies and Cost Savings

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

## Security Over Taxpayer Data and IRS Employees

As cybersecurity threats against the Federal Government continue to grow, protecting the confidentiality of taxpayer information will continue to be a top concern of

the IRS. The increasing number of data breaches in the private and public sectors means more Personally Identifiable Information (PII) than ever before is available to be stolen by unscrupulous individuals. Much of the data is detailed enough to circumvent most authentication processes. Therefore, it is critical that the methods used by the IRS to authenticate individuals' identities promote a high level of confidence that tax information and services are provided only to individuals who are entitled to receive them.

### **The Computer Security Incident Response Center Is Preventing, Detecting, Reporting, and Responding to Incidents, but Improvements Are Needed**

The IRS's Computer Security Incident Response Center (CSIRC) is responsible for preventing, detecting, reporting, and responding to cybersecurity incidents, which are computer-related threats or attacks targeting the IRS's enterprise information technology assets. Because the IRS maintains the tax information of all taxpayers, it is an attractive target for hackers. Weaknesses in the CSIRC program could prevent the timely detection, prevention, or reporting of unauthorized access and disclosure of taxpayer data.

This audit was initiated to evaluate the CSIRC's effectiveness at preventing, detecting, reporting, and responding to computer security incidents targeting IRS computers and data. In addition, TIGTA followed up on the corrective actions taken by the IRS in response to findings and recommendations from two prior audit reports that involved the CSIRC operations.

In general, the CSIRC prevented, detected, reported, and responded to cybersecurity incidents. For example, TIGTA sampled 100 incidents from a total population of 368 incidents for Fiscal Years (FY) 2015 and 2016 (through April 30, 2016). The CSIRC properly identified and documented the type, nature, and scope of all 100 incidents with information such as the systems and applications affected, the source of the incident, and the specific kind of lost equipment. However, TIGTA identified certain areas in which the CSIRC could improve its operations.

For instance, the CSIRC could improve some aspects of incident casework. TIGTA found that not all incidents were properly reported. In some cases, supporting incident documentation was insufficient, incident costs were not captured, and reporting procedures were inconsistently applied. Of the 100 incidents sampled by TIGTA, 64 were required to be reported to the Treasury Department because the incidents were confirmed to have compromised the confidentiality, integrity, or availability of a Federal Government information system; yet 22 were not reported as required. On February 15, 2017, after bringing the noncompliance to the IRS's attention, the 22 incidents were reported to the Treasury Department.

CSIRC employees and contractors did not always meet training guidelines, and skill assessments demonstrate a need for more training. TIGTA found that 10 employees in the 2015 FISMA<sup>32</sup> yearly cycle and seven employees in the 2016 FISMA yearly cycle attained the required eight hours of training that the IRS deemed as specialized. However, after closer examination of the courses completed, TIGTA disagreed with the designation and determined that some of the courses were more accurately categorized as awareness security training rather than specialized security training. As a result, six of the 10 employees did meet the specialized training requirement for the FISMA 2015 yearly cycle, and five of the seven employees did not meet the specialized security training requirement for the FISMA 2016 yearly requirement.

Finally, the Incident Response Plan, which provides the organization with a roadmap for implementing its incident response capability, was developed but not updated to fully comply with Federal guidelines.

While the IRS corrected several of the issues prior to completion of the audit report, TIGTA made the following recommendations to the IRS:

- Correct reporting inconsistencies of incidents;
- Ensure that costs of handling and responding to incidents are captured;
- Ensure that CSIRC employees and contractors are FISMA compliant with the specialized training requirement;
- Ensure that system owners remove CSIRC contractors' access privileges to IRS systems when they are noncompliant with FISMA training requirements; and
- Ensure that CSIRC employees receive the necessary specialized security training to move toward higher proficiency levels.

IRS management agreed to correct reporting inconsistencies and ensure that CSIRC employees and contractors are compliant with specialized security training requirements. The IRS partially agreed to remove system access by removing network access and to ensure that employees receive training to achieve high proficiency levels. The IRS disagreed with our recommendation to capture the costs of handling and responding to an incident, because it is not required by Federal standards. TIGTA agreed that capturing costs is not explicitly required; however, those costs can help determine if additional funding is needed for the incident response team and can be used to measure the success of the team and the effect of changes to performance

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32 The Federal Information Security Management Act.

capabilities (*i.e.*, improvements in efficiency and reductions in costs).

**Reference No. 2017-20-050**

## Improving Tax Compliance

The Tax Gap, *i.e.*, the difference between the estimated amount that taxpayers owe and the amount that they voluntarily and timely pay each year, is estimated to be \$450 billion. The underreporting of individual and corporate income, employment, and estate taxes accounts for approximately 84 percent of this total. Despite the budgetary pressure that has led to a reduction of IRS resources, the IRS must continue to identify and implement innovative cost-saving strategies to enforce the law with integrity and fairness and to provide taxpayers with top-quality service by helping them understand and meet their tax responsibilities.

### **A Significantly Reduced Automated Substitute for Return Program Negatively Affected Collection and Filing Compliance**

The IRS is authorized under I.R.C. § 6020(b) to use third-party information to determine and assess the tax liabilities of taxpayers who are required to, but do not, file a tax return. These cases are primarily worked in the Automated Substitute for Return (ASFR) Program. The IRS attempts to bring noncompliant taxpayers into compliance to ensure fairness and reduce the burden on the vast majority of taxpayers who fully pay their taxes on time. ASFR inventory receipts and 30-day letter issuances decreased by 89 and 98 percent, respectively, between FYs 2009 and 2016. This audit evaluated the effect of the ASFR Program on enforcement yield and nonfiler compliance and determined whether the program effectively processed its workload.

The Internal Revenue Manual describes the ASFR Program as a key compliance program, but due to significant resource reductions the program has been cut back substantially. Normal attrition in the workforce, as well as the inability to hire, reduced nonfiler case creation, and changes to ASFR inventory selection/work priorities have all contributed to the reduction of ASFR inventory receipts and 30-day letter issuances.

Management has prioritized ASFR cases involving Refund Holds over cases with potential high net-tax due (\$100,000 or more), even though the average dollars collected per case is five times higher in this latter type of case than in all other cases. TIGTA estimates that the IRS could collect \$843 million in additional taxes over the next five years if it replaced nine percent of Refund Hold inventory with high net tax-due cases.

Our analysis of 21,533 Refund Hold cases worked in the ASFR Program between June 2011 and November 2016 identified 12,872 (60 percent) cases that were not resolved within six months, and a refund was released to the taxpayer in 8,115 cases. If the IRS held these refunds until the ASFR process was completed, it could have potentially applied \$45 million to the taxpayers' accounts.

Our analysis of 103 randomly sampled ASFR cases determined that nine percent of ASFR inventory could be eliminated if previously filed tax return and other information was considered during the inventory selection process. Finally, ASFR Program performance measures are generally limited to employee direct time percentages, types and numbers of closures, and closure rates. Additional comparative measures for cases, such as the abatement rates and collection dollars, would provide management with information to make informed strategic decisions.

TIGTA recommended that the IRS:

- Reassess the decision to suspend the ASFR Program, including the reduction of Taxpayer Delinquency Investigation inventory and the reassignment of ASFR staff;
- Revise the ASFR case selection strategy to prioritize more high net-tax due cases and repeat nonfiler cases, both of which constitute a significant tax compliance risk;
- Reverse the policy of working only the most current tax year for high net-tax due cases by working all delinquent tax years;
- Extend the six-month Refund Hold deadline for cases worked in the ASFR Program;
- Incorporate prior filing information, including allowable exemptions, deductions, and credits into the nonfiler case creation process;
- Monitor abatement and refund cases regularly to determine if any additional criteria can be added to the case creation process to eliminate these cases for ASFR inventory selection purposes; and
- Track and measure the ASFR closure results for abatement rates, refund rates, and collection rates to better measure ASFR productivity.

IRS management plans to take corrective actions relating to five of TIGTA's recommendations, but disagreed with two of our recommendations, mainly due to limited resources. TIGTA contends that the implementation of these recommendations would be in the best interests of the taxpayer and the IRS.

**Reference No. 2017-30-078**

## The Internal Revenue Service Is Underutilizing Form 1099-K Data to Identify Tax Returns for Audit

Congress enacted legislation in July 2008 requiring payment settlement entities to report to the IRS payments made to merchants in settlement of payment card transactions.<sup>33</sup> In response, the IRS developed Form 1099-K, *Payment Card and Third Party Network Transactions*, for submission by payment settlement entities starting in Calendar Year (CY) 2012. This information reporting was intended to assist the IRS in matching income from gross receipts to income reported on tax returns, in an effort to reduce the Tax Gap. The Treasury Department estimated that enactment of this law would result in the collection of additional tax revenue of almost \$10 billion over 10 years.

The IRS established the Payment Card Program in CY 2012 and developed the Payment Mix Methodology algorithm to compare Form 1099-K data to tax return data, based on the assumption that similar businesses will have a comparable blend of cash and payment card purchases. This audit was initiated to determine whether the IRS is using merchant card third-party reporting (Form 1099-K) information in an effective manner for the assignment of productive audits.

The Payment Mix Methodology test (pilot) of the Payment Card Program was designed to select tax returns for audit based on Form 1099-K data. Although the IRS is considering discontinuing this pilot, it appears that it was effective for certain types of tax returns. Additionally, the IRS appears to have missed opportunities to audit tax returns with large discrepancies between payments reported on Forms 1099-K and income reported on taxpayers' tax returns.

Comparing Form 1099-K data to tax return data can be complicated for taxpayers who receive multiple Forms 1099-K for one year or report income on multiple forms and schedules, such as Schedule C, *Profit or Loss From Business (Sole Proprietorship)*, Schedule E, *Supplemental Income and Loss*, or Schedule F, *Profit or Loss From Farming*. However, to reduce matching complexities, we compared TY 2014 Form 1099-K data to TY 2014 tax return data for taxpayers who filed a Form 1040, *U.S. Individual Income Tax Return*, with only one Form 1099-K and one Schedule C and no Schedule E or Schedule F filed. Our comparison found almost 5,021 TY 2014 tax returns that showed a discrepancy of more than \$10,000 between the gross amount of payments reported on the Form 1099-K and the amount of gross receipts and other income shown on the Schedule C. We performed a similar comparison for corporations and partnership taxpayers that had one TY 2014 Form 1099-K and found 15,860 tax returns with a

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<sup>33</sup> Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289, 122 Stat. 2654.

discrepancy of more than \$10,000 between the gross amount of payments on the Form 1099-K and the amount shown for receipts on Forms 1120, *U.S. Corporation Income Tax Return*, 1120-S, *U.S. Income Tax Returns for an S Corporation*, or 1065, *U.S. Return of Partnership Income*.

TIGTA recommended that the IRS consider implementing compliance projects to test the use of Form 1099-K data to identify certain types of tax returns for audit. TIGTA also recommended that the IRS identify and address the reasons tax returns with large discrepancies between income reported on tax returns and the amounts reported on Forms 1099-K were not selected for audit or other treatment.

IRS management generally agreed with TIGTA's recommendations and plans to take corrective action, but disagreed with TIGTA as to the magnitude of the issue.

**Reference No. 2017-30-083**

### **Declining Resources Have Contributed to Unfavorable Trends in Several Key Criminal Investigation Business Results**

IRS Criminal Investigation's (IRS-CI) primary resource commitment is to develop and investigate tax cases. The prosecution of these cases is key to supporting the IRS's overall compliance goals, enhancing voluntary compliance with the tax laws, and promoting fairness and equity in our tax system. In addition, IRS-CI uses media and other outreach opportunities to deter financial crime and enhance voluntary tax compliance. The objective of this audit was to provide statistical information and trend analysis of IRS-CI's enforcement activities for FYs 2012 through 2016.

Since FY 2011, reductions in staffing and available funding for IRS-CI activities have contributed to a decrease in the number and size of IRS-CI field offices throughout the United States. While managing its core mission with declining resources, IRS-CI has continued to work general fraud, international, and Bank Secrecy Act (BSA) cases.

For FY 2016, IRS-CI was budgeted approximately \$576 million to fund programs that investigate potential criminal violations of Internal Revenue tax laws and certain other laws and to recommend prosecution as warranted. Since FY 2012, the attrition of field special agents has resulted in a decline in the number of cases initiated and completed. Specifically, in FY 2016, IRS-CI initiated 3,395 cases—an overall decrease of 34 percent compared to the 5,125 cases initiated in FY 2012.

Overall, special agents have consistently maintained inventory levels over an average of 5.30 cases per field special agent. Special agent inventories included a focus on

international cases. In FY 2016, international cases resulting in sentencing improved by approximately 33 percent from FY 2012.

IRS-CI relies on a variety of internal and external sources to initiate cases. The percentage of cases initiated from functions within the IRS decreased by five percent from FY 2012 to FY 2016. The percentage of cases initiated from the Offices of the United States Attorney and other Government agency sources, representing 64 percent of the 3,395 cases initiated, increased.

Between FY 2012 and FY 2016, IRS-CI implemented policy changes that affected the BSA and identity-theft cases. IRS-CI will no longer pursue seizure and forfeiture of funds related to legal source structuring cases under the BSA unless justified by exceptional circumstances. In September 2012, the Department of Justice implemented an expedited and parallel review of proposed indictments arising from stolen-identity refund fraud cases, resulting in a spike of identity-theft case initiations and completions for FY 2012 through FY 2013.

TIGTA identified a trend in special agent inventory taking longer to turn over because of an increase in time required by special agents to determine that cases did not contain prosecution potential. In FY 2016, it took special agents an average of 540 days (1.5 years) to determine that there was no prosecution potential, whereas it took an average of only 422 days in FY 2012.

Due to the nature of this audit, TIGTA made no recommendations.

**Reference No. 2017-30-073**

### **Further Actions Are Needed to Reduce the Risk of Employment Tax Fraud to Businesses That Use the Services of Professional Employer Organizations**

Professional Employer Organizations (PEO) are referred to as third-party payers because they generally pay wages and file employment tax returns on employees' wages that would otherwise be handled by their client companies. PEOs that are certified by the IRS are required to notify the IRS of employers that use their services. Employers that continue to use the services of a PEO but choose not to participate in the certification program remain at risk of employment tax fraud.

This audit was initiated because of legislation enacted by Congress in CY 2014<sup>34</sup> in an effort to reduce the risk of employment tax fraud by third-party payers, in particular

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34 Achieving a Better Life Experience Act of 2014, Pub. L. No. 113-295, 128 Stat. 4010; Consolidated Appropriations Act of 2014, Pub. L. No. 113-76, 128 Stat. 5.

PEOs. The audit assessed the IRS's actions to establish processes for certifying PEOs authorized to file and pay employment taxes.

In response to legislative provisions, the IRS has taken steps to implement processes and procedures for issuing a notice to confirm any change of business address, when required, and to establish a voluntary program for PEOs to become Federally certified. PEOs file an aggregate tax return and pay employment taxes owed under the Employer Identification Number (EIN) of the PEO for all employers using their services. While PEOs that are certified by the IRS are required to notify the IRS of the specific employers that use their services, most PEOs do not participate in this Federal certification program. Because a PEO uses its own EIN when filing tax returns on behalf of the employers it represents, and because the IRS has no way to identify the PEO that is filing and paying taxes on behalf of a given employer, the IRS cannot monitor the PEO to ensure that the employment taxes are being properly filed and paid.

In addition, TIGTA found that processing time frames and procedures need to be developed to periodically inform applicants as to the status of their applications. Finally, regarding the dual notice process, some notices were being issued erroneously and some notices were not being issued at all. For example, TIGTA identified 698,660 sets of notices that were unnecessarily issued to businesses whose address did not change. Using IRS cost data, TIGTA estimated that the issuance of these erroneous notices resulted in the IRS needlessly expending almost \$3 million. TIGTA also identified 256,826 sets of notices that should have been, but were not, issued to businesses whose addresses were changed.

TIGTA recommended that the IRS:

- Work with the Treasury Department to consider a legislative proposal to require non-certified PEOs to register with the IRS and file Schedule R, *Allocation Schedule for Aggregate Form 941 Filers*, with their Form 941, *Employer's QUARTERLY Federal Tax Return*;
- Establish timeliness standards for reviewing applications;
- Establish processes and procedures to reduce unnecessary resources expended to notify employers of an address change when programming incorrectly identifies an address change that is a result of minor formatting revisions;
- Ensure that programming is updated to include Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, in the criteria to generate Computer Paragraph (CP) 148 notices, *We Changed Your Mailing Address*, when an address is changed;

- Develop processes and procedures to track employer contacts with the IRS alerting it of an unauthorized address change and to refer these unauthorized address changes to the appropriate IRS function to determine why the change occurred and whether the employer’s account should be marked to proactively protect the business against possible identity theft.
- Ensure that EINs are truncated on all CP 148 notices.

IRS management agreed with all of TIGTA’s recommendations.

**Reference No. 2017-40-085**

### **Review of Selected Criteria Used to Identify Tax-Exempt Applications for Review**

In a prior audit,<sup>35</sup> TIGTA determined that the IRS used inappropriate criteria to select tax-exempt applications for further review. Moreover, ineffective management resulted in substantial delays in processing certain applications and allowed unnecessary information requests to be issued. In the prior review, TIGTA audited criteria that the IRS stated it had used to select potential political cases for additional review from May 2010 through May 2012.

The overall objective of this audit was to provide a historical account of the IRS’s development and use of 17 select criteria from 259 criteria that could potentially be used to identify tax-exempt applications for review. The 17 criteria discussed in this report were selected based on input from staff of various congressional committees of jurisdiction and the IRS, as well as from training materials that were not provided to TIGTA in the prior audit.

TIGTA found that, from August 2004 through June 2013, the IRS potentially used 259 criteria to identify tax-exempt applications for further review. Most of these criteria involved issues unrelated to political campaign intervention, such as potential fraud, abuse, and links to terrorism.

In the prior audit, TIGTA found that the IRS used a case listing tracking sheet to show which potentially political cases were selected for further review; however, IRS management stated that case listing tracking sheets such as the one provided in the prior audit were not required. Due to the lack of case listing tracking sheets for all but one of the 17 criteria, TIGTA used various sources to identify more than 900 cases

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35 TIGTA, Ref. No. 2013-10-053, *Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review* (May 2013).

that could potentially have been selected for review based on the 17 criteria. However, TIGTA could not verify whether all relevant cases were identified.

Based on TIGTA's review of case documentation, 181 of the more than 900 cases showed evidence of political activities or indications of significant potential political campaign intervention (the subject of the prior audit). Thirty-five of these cases were not processed while the applicable criteria were in use; nor did they appear to have been processed based on the criteria. For the remaining 146 cases, TIGTA determined that 83 were processed based upon the criteria and 63 were processed while the criteria were in use, but TIGTA could not confirm that these cases were selected for review based upon the criteria. Analysis of the 146 cases is shown in each of the 17 sections of the report with information for each of these unique criteria.

TIGTA did not make any recommendations because the procedures in place when the 17 criteria were potentially used by the IRS are no longer in use.

**Reference No. 2017-10-054**

## Reducing Fraudulent Claims and Improper Payments

The Office of Management and Budget (OMB) 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 of 2002<sup>36</sup> requires Federal agencies, including the IRS, to estimate the amount of improper payments that it has made and report to Congress annually on the causes of and the steps taken to reduce improper payments. TIGTA continues to identify fraudulent claims and improper payments as an IRS major management challenge.

### **Actions Need to Be Taken to Ensure Compliance With Prisoner Reporting Requirements and Improve Identification of Prisoner Returns**

Refund fraud associated with prisoner SSNs remains a significant problem for tax administration. The IRS identified more than 24,000 fraudulent tax returns that used a prisoner SSN in CY 2015. The refunds claimed on those tax returns totaled more than \$1.3 billion. This audit was initiated because prior TIGTA reports<sup>37</sup> identified

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

37 TIGTA, Ref. No. 2014-40-091, *Prisoner Tax Refund Fraud: Delays Continue in Completing Agreements to Share Information With Prisons, and Reports to Congress Are Not Timely or Complete* (Sept. 2014); TIGTA, Ref. No. 2013-40-011, *Further Efforts Are Needed to Ensure the Internal Revenue Service Prisoner File Is Accurate and Complete* (Dec. 2012); TIGTA, Ref. No. 2011-40-009, *Significant Problems Still Exist With Internal Revenue Service Efforts to Identify Prisoner Tax Refund Fraud* (Dec. 2010).

concerns with the IRS's efforts to identify and prevent prisoner tax fraud. The overall objective was to evaluate the effectiveness of the IRS's corrective actions to identify and reduce prisoner fraud.

IRS processes do not effectively ensure that the Federal Bureau of Prisons and the State Departments of Corrections comply with prisoner reporting requirements. TIGTA identified 861 prisons that reported to the SSA but did not report to the IRS. TIGTA also identified 272,931 prisoners who were in the systems of the Federal Bureau of Prisons or State Departments of Corrections but who were not reported to the IRS. Approximately \$48 million in potentially fraudulent refunds were claimed by 16,742 individuals incarcerated in institutions that did not report to the IRS.

In addition, the process to validate and use prisoner data limits the IRS's ability to detect potentially fraudulent tax returns. The IRS assesses the validity of the information provided by reporting institutions for each prisoner. When certain reported information does not match IRS records, the prisoner record is added to the IRS Prisoner Mismatch File and is not used to identify potential fraud, so any return filed using an SSN on the Prisoner Mismatch File will not be evaluated for potential prisoner fraud. TIGTA identified 1,075 tax returns filed using mismatched prisoner information in which the reported income was not supported by third-party income documents. These 1,075 individuals received refunds totaling more than \$3.1 million. In addition, the validation process incorrectly identified prisoner records as having a mismatch when the information did match IRS records. TIGTA identified 1,113 tax returns with refunds totaling more than \$1.7 million that were not identified as prisoner tax returns as a result of this error.

Finally, some prisoner tax returns were not screened and verified for fraud. TIGTA identified 4,072 prisoner tax returns that reported income and withholding that were not supported by third-party income documents. These filers received potentially fraudulent refunds totaling more than \$7.3 million.

TIGTA recommended that the IRS:

- Develop a master list of prisons nationwide for use in verifying prisons' compliance with legislative reporting requirements;
- Evaluate the inclusion of valid SSNs associated with records in the Prisoner Mismatch File for use in identifying prisoner tax returns to assign an indicator and evaluate for fraud potential;
- Coordinate with the Treasury Department's Office of Tax Policy to consider a legislative proposal to allow the IRS to provide mismatch records to the Federal Bureau of Prisons and State Departments of Corrections in an effort to resolve the mismatch in future submissions;

- Expand the communication strategy for the Blue Bag Program<sup>38</sup> to ensure that all Federal Bureau of Prisons and State Departments of Corrections institutions are made aware of the program;
- Include information in the annual report to Congress<sup>39</sup> on all tax returns, including identity-theft tax returns, that the IRS identifies through its fraud detection processes as having been filed using a prisoner SSN;
- Ensure that the annual report includes information regarding individuals identified as part of its criminal investigations to have perpetrated tax refund fraud while incarcerated, either by filing tax returns in their own names or by using the identities of other individuals;
- Clearly define a prisoner for the purposes of determining prisoner fraud as well as for the annual report to Congress; and
- Evaluate the effect of the IRS's decision to limit the verification of prisoner tax returns to only those filed using the SSNs of full-year prisoners.

IRS management agreed to five of TIGTA's recommendations. IRS management did not agree to pursue a legislative proposal to share mismatch records with prisons, include criminal investigation results in its annual report to Congress, and evaluate the effect of limiting verification to full-year prisoners.

**Reference No. 2017-40-041**

### **Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims**

In December 2015, Congress enacted the Protecting Americans From Tax Hikes Act of 2015 (PATH Act),<sup>40</sup> which contains a number of integrity provisions intended to reduce improper Earned Income Tax Credit (EITC), Child Tax Credit, Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit claims. These provisions are projected to save approximately \$7 billion over 10 years by reducing fraud, abuse, and improper payments in refundable credit programs.

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38 The Blue Bag Program is a partnership between IRS and prison institutions and is intended to identify potential tax-related fraud through State and Federal prison officials monitoring of prison communications, *i.e.*, tax returns and tax-related correspondence.

39 The Inmate Tax Fraud Prevention Act of 2008 requires the Secretary of the Treasury to provide an annual report to Congress on the filing of false or fraudulent tax returns by Federal or State prisoners.

40 Pub. L. No. 114-113, div. M, 129 Stat. 2242, 3040-128.

These integrity provisions expanded the IRS's ability to verify earned income before claims are paid, increased tax return preparer due diligence requirements, expanded taxpayer reporting requirements, and expanded the IRS's ability to ban individuals previously determined to have filed reckless or fraudulent claims from receiving the credit in the future.

Effective December 18, 2015, taxpayers must have a TIN that was issued before the due date of the tax return to claim the EITC and ACTC. However, the IRS does not have processes in place to identify claims for which a TIN was not timely issued (referred to as a retroactive claim) because it does not have the information needed to determine when an SSN or ITIN was issued. As a result, for the 2016 Filing Season the IRS paid more than \$34.8 million in refundable tax credits on original tax returns to 15,744 taxpayers whose TINs were not issued timely.

IRS processes also do not maximize the use of third-party income documents to identify potentially improper refundable credit claims. While the IRS has developed processes to systemically verify tax returns by matching them to available Forms W-2, *Wage and Tax Statement*, it has not developed processes to effectively use Forms 1099-MISC, *Miscellaneous Income*, which report nonemployee compensation.

Finally, the IRS still has not established processes to prevent individuals using an SSN that is not valid for work (hereafter referred to as nonwork SSN) from receiving the EITC. As a result, 49,310 individuals not authorized to work in the United States received almost \$117.7 million in potentially erroneous EITCs in TY 2014.

TIGTA recommended that the IRS:

- Review the 15,744 tax returns filed during the 2016 Filing Season with an untimely TIN and take the necessary steps to recover credits paid in error;
- Continue to evaluate opportunities to use Forms 1099-MISC to systemically verify income reported on EITC and ACTC claims;
- Conduct a study to quantify the EITC and ACTC claims with income discrepancies that the IRS identifies, and assess its authority to address them; and
- Evaluate the use of nonwork SSN data that the IRS currently has available for use in its systemic processes to identify potentially erroneous EITC claims.

IRS management agreed with TIGTA's recommendations.

**Reference No. 2017-40-042**

## Improving Tax Systems and Expanding Online Services

Successful modernization of IRS systems and the development and implementation of new information technology applications are critical for the IRS to meet its evolving business needs and to enhance services provided to taxpayers. The IRS's modernization effort continues to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and IRS employees. It will establish the foundation for implementing a real-time tax system, reducing improper payments and fraudulent refunds, and providing the technology infrastructure and architecture that will afford taxpayers and other stakeholders the ability to securely access tax account information.

### **While Release 1.0 of the Web Applications System Was Successfully Deployed, Several Factors Contributed to Implementation Delays**

In November 2013, a task force of IRS executives convened to develop a Future State Vision designed to transform IRS operations in a way that will modernize the taxpayer experience, make filing simpler for taxpayers, and increase voluntary compliance. The Web Applications Program Management Office was initiated to drive innovation and create digital services to meet taxpayer needs. Its primary purpose is to establish online accounts for individual taxpayers that link the taxpayer to various IRS services.

This audit was initiated to determine whether the IRS adequately developed and tested the functionality of taxpayers' online accounts provided by Release 1.0 of the Web Applications system. This release was designed to deliver an online account for individual taxpayers along with the ability to:

- See a balance due;
- See the payment status/history;
- Make a payment; and
- View/Download tax transcripts.

The development and deployment of Release 1.0 of the Web Applications system was significantly delayed. A lack of funding caused a delay in the Web Applications Program Management Office's obtaining the necessary staffing resources. Similarly, inconsistent governance contributed to project delays. The Web Applications Program Management Office was transferred to various executive steering committees and governance boards that were responsible for approving the funding for the system's staffing resources.

In addition, the Unified Work Request process was incompatible with the needs of the new Agile development methodology.<sup>41</sup> This caused delays in receiving products and services for the development of Release 1.0 of the Web Applications system.

These deficiencies in resources caused the program to re-focus its priorities to first develop the *See a Balance Due* and *Make a Payment* functionalities. The Web Applications Program Management Office and its delivery partners designed, developed, and tested these two functionalities. They were deployed in November 2016 and were available for taxpayers to use during the 2017 Filing Season.

The remaining two functionalities, *See the Payment Status/History* and *View/Download Tax Transcripts*, were deployed in June 2017. As a result, at the start of the 2017 Filing Season, taxpayers were unable to use the Web Applications system to see payment status and history or view and download transcripts, and the IRS missed an opportunity for greater success in its efforts to improve taxpayer access to information and reduce taxpayer burden.

TIGTA recommended that the IRS ensure that all future project management offices are established and operate with an oversight function that is aligned with the organization's governance model and encompasses the project life cycle. TIGTA also recommended that the IRS streamline the current Unified Work Request process by incorporating processes that support the needs of the Agile development methodology.

IRS management agreed that all Program Management Offices should operate with an oversight function that aligns with the organization's governance model, but disagreed with our finding that the Web Applications Program Management Office did not have appropriate governance. The IRS also plans to establish an incremental approach to define and pilot a more effective way to accomplish demand management.

**Reference No. 2017-20-057**

## Providing Quality Taxpayer Service Operations

Providing taxpayers with quality customer service is a key component of the IRS's mission. Ensuring that taxpayers understand and meet their tax responsibilities is crucial for the IRS in its effort to encourage voluntary compliance with the tax

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<sup>41</sup> Agile development methodology is a software development methodology based on iterative and incremental development, in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams. Agile promotes development, teamwork, collaboration, and process adaptability throughout the life cycle of the project.

laws. Resolving taxpayer questions before tax returns are filed helps taxpayers avoid unintentional errors and also reduces the burden that results from the issuance of notices and correspondence. Further, successfully addressing and resolving taxpayer inquiries through a quality customer service process allows the IRS to direct its limited resources more efficiently.

### **Better Documentation Is Needed to Support Office of Appeals' Decisions on International Cases**

The Office of Appeals (Appeals) is an independent function within the IRS whose mission is to resolve disputes on a fair and impartial basis without litigation. Appeals is the only IRS function that is authorized to consider the hazards of litigation in attempting to reach a settlement. In FY 2015, the Appeals personnel did not sustain 94 percent of the proposed examination assessments on international cases worked by the Appeals International Teams that were closed in FY 2015. It is important that Appeals apply and document a consistent methodology to ensure that taxpayers and the Government receive fair and impartial resolutions.

This audit was initiated because international tax issues are a major area of concern for the IRS. The overall objective was to determine whether controls over international appeals cases are designed to ensure that cases are processed according to IRS criteria and whether Appeals' decisions to concede assessments were adequately supported.

TIGTA determined that appeals officers adequately documented their conclusions in 12 of the 39 cases in TIGTA's judgmental sample. The 39 cases in the judgmental sample included \$348 million of the \$407 million not sustained by the International Appeals Teams in FY 2015.

In 27 of the 39 cases in our sample, appeals officers did not adequately document how they arrived at their decision to concede the Government's position. According to Appeals' guidance, appeals officers should weigh the strengths and weaknesses of the relative factors considered in determining the amount or percentage to concede.

Although most case files contained an extensive analysis of facts and tax issues, there was not always a clear connection between the appeals officer's analysis and the final decision to concede the Government's position. Since Appeals did not fully document the basis for its decision to concede the proposed deficiencies, TIGTA could not establish if Appeals settled these cases on a basis that was fair and impartial to both the taxpayer and the Government.

Further, the IRS could not timely locate nine cases selected for our review and thus could not support Appeals' actions in reducing proposed assessments of \$49 million. This is of significant concern due to IRS requirements to retain Federal records.

TIGTA recommended that the IRS reinforce internal guidance to Appeals personnel focusing on how cases settled under the hazards of litigation should be documented to include the weighted hazards of both the taxpayer's and the Government's positions and show how the settlement amounts or percentages were determined. TIGTA also recommended that the IRS attempt to secure the missing case files, determine the reason(s) the files were not locatable, and implement controls to ensure the accessibility of case files.

IRS management generally agreed with TIGTA's recommendations and stated that they plan to continue to take steps to reinforce the importance of fully documenting settlement rationales and that they plan to review their policies and procedures regarding case routing. They also stated that they plan to continue to participate in IRS-wide efforts to improve record retention processes.

**Reference No. 2017-10-068**

## Impact of Global Economy on Tax Administration

Tax administration has traditionally been concerned with large corporate taxpayers in the cross-border environment. Continued improvements in access to information technology are allowing more small businesses and individuals to conduct business in international markets and make investments in foreign countries, increasing the number of taxpayers involved in international activity.

### **Additional Controls Are Needed to Help Ensure That Nonresident Alien Individual Property Owners Comply With Tax Laws**

Nonresident alien individuals who own and derive rental income from U.S. residential real property (hereafter referred to as U.S. property) can reduce their tax liability by electing to treat rental income generated by those properties as effectively connected to a U.S. trade or business. Nonresident aliens who make this election can reduce their rental income by offsetting such income with expenses pertaining to the rental activity. The IRS does not ensure that these taxpayers properly make the election before allowing these tax advantages. As a result, taxpayers who do not comply with the laws receive the same tax benefit as those who do.

It is estimated that nonresident alien individuals' investments in U.S. property increased from \$34.8 billion during the 12-month period ending in March 2013 to \$43.5 billion during the 12-month period ending in March 2016. This audit was

initiated to evaluate the IRS's efforts in identifying and addressing nonresident alien individuals who should be paying tax on rental income from U.S. property.

The IRS can improve controls to ensure that nonresident aliens are properly reporting rental income from U.S. property. TIGTA reviewed a random sample of 149 nonresident aliens who rented their U.S. property in TY 2013. TIGTA found that 102 (68 percent) of them reduced their gross rental income when reporting their rental activity without complying with the statutory requirement that an election statement be submitted. The IRS needs to improve compliance checks to ensure that election statements are made. As a result, \$1.78 million in gross rental income should have been subject to 30 percent tax withholding in the amount of \$533,000 (\$56.2 million in withholding when projected to the population).

The IRS also needs to improve tools to identify nonresident aliens who are not reporting rental income from U.S. property that they own. From our sample, drawn from foreign property owners in five counties, TIGTA identified foreign property owners who appeared to have failed to report and pay tax on their earned rental income (at least 28 of 214 foreign property owners in our sample). When these exceptions are projected onto the population reviewed in five selected areas, there is potentially \$60.9 million in unreported rental income.

TIGTA recommended that the IRS:

- Revise Form 1040NR, *U.S. Nonresident Alien Income Tax Return*, for nonresident aliens to make an election under I.R.C. § 871(d) and revise processing procedures to ensure that the IRS records their election;
- Verify withholding credits claimed on Form 1040NR against information in the Foreign Investment in Real Property Tax Act Database and research the nonresident alien's Master File account to determine whether the U.S. property was rented and depreciated and, if so, verify the calculation of the property's cost basis used in a sale; and
- Develop a compliance initiative addressing foreign property owners who do not report rental income generated by real property they own in the United States.

The IRS agreed with TIGTA's recommendations regarding the revision to Form 1040NR and the initiation of a compliance initiative, but disagreed with our recommendation concerning Foreign Investment in Real Property Tax Act verification.

**Reference No. 2017-30-048**

## Protecting Taxpayer Rights

The IRS must balance tax compliance activities against the rights of taxpayers to receive fair and equitable treatment. The IRS provides taxpayers with Publication 1, *Your Rights as a Taxpayer*, in many notices and during in-person interviews involved in the collection and examination processes. The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of RRA 98.

### **Electronic Record Retention Policies Do Not Consistently Ensure That Records Are Retained and Produced When Requested**

The IRS is required by Federal law to retain and produce Federal records when requested through appropriate legal means. Recently, the IRS reported that, when responding to requests from external parties, it had determined that some documents had been lost or destroyed. The Freedom of Information Act (FOIA)<sup>42</sup> enables the public to request access to Federal records and information. The IRS's ability to adequately respond to Federal records requests is essential in maintaining the public's trust and ensuring transparency in Government.

This audit was requested by the Chairman of the House Committee on Ways and Means and by the Chairman of the Senate Committee on Finance to determine the IRS's policies for record retention, whether those policies comply with Federal requirements, and whether the IRS's practices for responding to requests for records ensure that responsive records are retained and provided in accordance with Federal requirements.

TIGTA found that IRS policies do not comply with certain Federal requirements that agencies ensure that all records are retrievable and usable for as long as needed. For example, IRS e-mail retention policies are not adequate because e-mails are not automatically archived for all IRS employees. Instead, the IRS's current policy instructs employees to take manual actions to archive e-mails by saving them permanently on computer hard drives or network shared drives.

This policy has resulted in lost records when computer hard drives are destroyed or damaged. In addition, a recently instituted executive e-mail retention policy, which should have resulted in the archiving of e-mails from specific executives, was not implemented effectively because some executives did not turn on the automatic archiving feature.

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<sup>42</sup> 5 U.S.C. § 552.

For certain cases that TIGTA reviewed, IRS policies were not implemented consistently to ensure that all relevant documents were searched and produced in response to external requests for records. TIGTA's review of 30 completed FOIA requests found that in more than half of the responses the IRS did not follow its own policies that require it to document what records were searched. TIGTA also found that IRS policies for preserving records from separated employees were not adequate.

TIGTA recommended that the IRS:

- Implement an enterprise e-mail solution that enables the IRS to comply with Federal records management requirements, including the ability to organize and maintain its records so as to facilitate their use when and where they are needed in a usable format, and to ensure their preservation throughout the authorized retention periods;
- Document the methodology for developing one authoritative list of executives in the permanent and 15-year retention groups, and coordinate with Information Technology organization personnel to verify that all identified executive e-mail accounts are properly configured to archive e-mail;
- Ensure that the newly issued policy on the collection and preservation of Federal records associated with separated employees is disseminated throughout the agency to ensure consistent compliance with Federal records retention requirements within all business units;
- Ensure that the policy for documenting search efforts is followed by all employees involved in responding to FOIA requests; and
- Develop a consistent policy that requires Federal records associated with separated employees to be searched as part of the IRS's responses to Federal requests for records, and ensure that the policy is followed by all business units.

IRS management agreed with all five of TIGTA's recommendations.

**Reference No. 2017-10-034**

## Achieving Program Efficiencies and Cost Savings

Achieving program efficiencies and cost savings is imperative, as the IRS must continue to carry out its mission with a significantly reduced budget. 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.

## **The Internal Revenue Service Continues to Rehire Former Employees With Conduct and Performance Issues**

From January 1, 2015 through March 31, 2016, the IRS hired nearly 7,500 employees, of which more than 2,000 had been previously employed by the IRS. Given the substantial threat of identity theft and the magnitude of the sensitive information that the IRS holds, hiring employees of high integrity is essential to maintaining public trust in tax administration and safeguarding taxpayer information.

This audit was requested by a U.S. Senator. Its overall objective was to follow up on a recommendation in a prior TIGTA report to determine whether IRS management has updated its policies to consider past conduct and performance issues prior to hiring former employees.

TIGTA found that the IRS has not effectively updated or implemented hiring policies to fully consider past IRS conduct and performance issues prior to making a tentative decision to hire former employees, including those who were terminated or separated during an investigation of a substantiated conduct or performance issue.

While most rehired employees do not have prior conduct or performance issues, TIGTA found that a little over 200 (approximately 10 percent) of the more than 2,000 former employees who were rehired between January 2015 and March 2016 had previously been terminated by the IRS or had separated while under investigation for a substantiated conduct or performance issue. More than 150 of these employees (approximately 75 percent) were seasonal workers. Four of the terminated or separated employees had been terminated or resigned for willful failure to properly file their Federal tax returns; four had separated while under investigation for unauthorized accesses to taxpayer information; and 86 had separated while under investigation for absences and leave, workplace disruption, or failure to follow instructions. These include positions such as contact representatives, in which employees have access to sensitive taxpayer information.

Although the IRS follows specific criteria to disqualify applicants for employment, the past IRS employment history of applicants is not provided to the selecting official for consideration when making a tentative hiring decision. IRS officials stated that it would be cost prohibitive to review prior issues before a hiring decision and tentative offer have been made. However, the IRS was unable to provide documentation in support of this position. Further, TIGTA could not verify that the IRS always considered prior conduct or performance issues, because reviews are not always documented. TIGTA also found that 27 former employees failed to disclose a prior termination or conviction on their application, as required, and were rehired by the IRS.

Although the IRS may have had a valid basis to rehire some of the more than 200 former employees with prior conduct or performance issues, TIGTA has serious concerns about the IRS's decision to rehire certain types of employees, such as those who willfully failed to meet their Federal tax responsibilities.

TIGTA recommended that the IRS provide the selecting official with access to former employee conduct and performance issues, and require that the basis for rehiring employees with prior employment issues be clearly documented. IRS management agreed in principle with TIGTA's recommendations, and plans to update current practices and policies to ensure that data reflecting prior performance and misconduct are utilized in the hiring process.

**Reference No. 2017-10-035**

### **Sixty-Four Percent of the Internal Revenue Service's Information Technology Hardware Infrastructure Is Beyond Its Useful Life**

The Sustaining Infrastructure Program manages the replacement of aged information technology hardware infrastructure, which provides the foundation for technology services and supports the IRS's most critical business needs. The management, maintenance, and ongoing enhancement of the IRS's information technology infrastructure are central to the reliability of its operations and to the successful accomplishment of its mission to "provide America's taxpayers top-quality service." The overall objective of this review was to determine the efficiency and effectiveness of key ongoing or planned activities aimed at addressing the IRS operational challenge of replacing its aged hardware infrastructure.

While the Sustaining Infrastructure Program spends, on average, nearly 99.7 percent of its allocated budget each year, the IRS has not yet achieved its stated objective of reducing its aged information technology hardware to an acceptable level of 20 to 25 percent. In fact, the IRS's percentage of aged information technology hardware has steadily increased from 40 percent at the beginning of FY 2013 to 64 percent at the beginning of FY 2017. The IRS estimates that the current replacement cost for its aged information technology hardware is approximately \$430 million.

Aged information technology hardware still in use introduces unnecessary risks. TIGTA analyzed 107 incident tickets most likely to involve aged hardware failures in FY 2016 and found that the aggregate length of time required to resolve these issues was approximately 4,541 hours. These aged hardware failures may have also had a negative impact on IRS employee productivity, security of taxpayer information, and customer service.

Each year, the IRS provides varying amounts of funds to the Sustaining Infrastructure Program from a number of different internal sources, including the IRS's base year operations support appropriation, user fees, and carryover money not used by other IRS business units in previous fiscal years. IRS management explained that they have a process in place to monitor each financial plan and identify potential surplus funds. However, additional coordination with business units to identify the availability of surplus funds earlier in the process and development of plans to expeditiously spend these funds on the aged hardware inventory is needed. Such coordination could have resulted in a combined total of up to \$67 million in additional unspent funds being available for the Sustaining Infrastructure Program during FYs 2013 through 2016. In addition, the IRS does not have a comprehensive guidance document to effectively manage its aged information technology hardware.

TIGTA recommended that the IRS conduct additional coordination with business unit executives to identify the availability of additional transfers, reprogramming, and possible carryover funds earlier in the process to maximize their use and develop plans to aid in reducing its aged information technology hardware infrastructure. TIGTA also recommended that the IRS develop a comprehensive guidance document that details the IRS's enterprise-wide processes, policies, procedures, and employees' roles and responsibilities, to effectively manage the IRS's aged information technology hardware.

IRS management agreed with two of TIGTA's recommendations and disagreed with one. In its FY 2018 budget submission, the IRS requested the realignment of funds and additional multiyear authority. This should be of significant benefit if funded as requested. However, given the substantial portion of IRS's hardware infrastructure that is beyond its useful life, additional actions will likely be needed.

**Reference No. 2017-20-051**

## **The Internal Revenue Service Is Not in Compliance With Federal Requirements for Software Asset Management**

Efficient and cost-effective management of the IRS's software assets is crucial to ensure that information technology services continue to support the IRS's business operations and to help provide quality service to taxpayers. This audit was initiated to determine the IRS's progress in addressing the 14 recommendations included in

three prior TIGTA audits<sup>43</sup> related to software license management. Also, recent laws and regulations direct Federal agencies to establish a comprehensive software license policy that includes: establishing an inventory of software license spending, tracking and maintaining software licenses, and establishing goals and objectives of the software license management program.

The IRS made some progress in addressing TIGTA's prior audit recommendations, but our review determined that the IRS prematurely closed 11 corrective actions. The actions completed did not adequately address TIGTA's recommendations and they should not have been closed. Specifically, the IRS has not developed policy and guidance and roles and responsibilities for managing software asset licenses, as defined by the Information Technology Infrastructure Library; implemented a specialized software license tool(s) designed to discover, track, and manage software license deployment and usage; or developed standard operating procedures for using the tool(s).

While the IRS is in the early stages of establishing a framework for, and is using ad-hoc procedures to make progress in the area of, Software Asset Management (SAM), it has not maintained standard pricing and terms and conditions for software acquisitions, compiled a reliable baseline inventory of software licenses, or documented cost savings and cost avoidance amounts attributable to improved software license management, in accordance with recent laws and regulations.

TIGTA recommended that the IRS establish executive governance for SAM; establish a SAM framework using Federal requirements and industry best practices; assess current SAM practices to identify gaps within the IRS's management of software licenses; and take necessary corrective actions to resolve issues using the SAM framework.

IRS management agreed with TIGTA's recommendations.

**Reference No. 2017-20-062**

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43 TIGTA, Ref. No. 2013-20-025, *Desktop and Laptop Software License Management Is Not Being Adequately Performed* (June 2013); TIGTA, Ref. No. 2014-20-002, *The Internal Revenue Service Should Improve Mainframe Software Asset Management and Reduce Costs* (Feb. 2014); and TIGTA, Ref. No. 2014-20-042, *The Internal Revenue Service Should Improve Server Software Asset Management and Reduce Costs* (Sept. 2014).



# Protect the Integrity of Tax Administration

TIGTA is statutorily mandated to protect the integrity of Federal tax administration. 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 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, whose efforts are guided by 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.

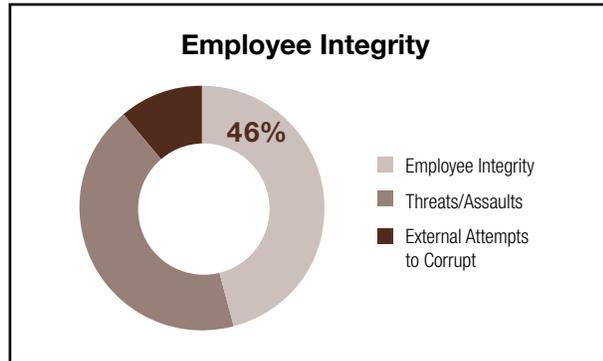
The Office of Investigations has adopted performance measures that identify results derived from investigative activities that most accurately align with the strategic goals of the organization and that provide the greatest impact on the protection of the integrity of Federal tax administration.

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 schemes and frauds 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 resources or authority; theft; fraud; extortion; taxpayer abuse; unauthorized access to, and disclosure of, tax return information; and identity theft.

During this reporting period, employee integrity investigations accounted for 46 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 Arrested in a Stolen-Identity Refund Fraud Scheme

On May 11, 2017, in the Northern District of Georgia, IRS employee Stephanie Parker was arrested<sup>44</sup> for her role in a stolen-identity refund fraud scheme. Parker was indicted on April 25, 2017, for wire fraud and aggravated identity theft related to the scheme.<sup>45</sup>

<sup>44</sup> N.D. Ga. Executed Arrest Warrant filed May 16, 2017.

<sup>45</sup> N.D. Ga. Indict. filed Apr. 25, 2017.

According to the court documents, Parker had been employed by the IRS since November 2010 at the Chamblee, Georgia office. Through her employment, Parker had access to the means of identification of others, which could include any information used to identify a specific individual, such as name, SSN, date of birth, and address.<sup>46</sup>

From at least September 2012 through at least April 2013, Parker knowingly devised a scheme to defraud the IRS and to obtain money by means of materially false pretenses and representations. Parker also knowingly possessed and used the means of identification of others without lawful authority in relation to the scheme.<sup>47</sup>

Specifically, through her IRS employment, Parker accessed taxpayer information, including the names and SSNs of five individuals, and used this information for her own benefit. Parker and others prepared and electronically filed fraudulent income tax returns in the names of those five individuals and directed the anticipated tax refunds to bank accounts held in the names of others. Some of the tax refunds were subsequently used to purchase money orders. The fraudulent returns were all electronically filed from Parker's residence in Atlanta, Georgia.<sup>48</sup>

Wire fraud carries a maximum statutory sentence of 20 years' imprisonment, and aggravated identity theft requires an additional two-year term of imprisonment with any other sentence imposed. Additional legal actions are anticipated.

### **IRS Employee Sentenced in a Scheme to Defraud His Employer**

On May 12, 2017, in the Eastern District of New York, former IRS employee James Brewer was sentenced for filing false tax returns, aiding and assisting in the preparation of false tax returns, wire fraud, mail fraud, and perjury.<sup>49</sup> Brewer pled guilty to the offenses in September 2016.<sup>50</sup>

According to the court documents, Brewer was an IRS revenue officer assigned to the Edison, New Jersey, IRS office. As a revenue officer, Brewer was responsible for collecting money owed to the IRS and securing Federal tax returns from taxpayers who failed to file them. In connection with their employment, IRS employees are prohibited from preparing tax returns for profit and are prohibited from operating

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46 *Id.*

47 *Id.*

48 *Id.*

49 E.D.N.Y. Judgment filed May 22, 2017.

50 E.D.N.Y. Crim. Docket as of Sep. 30, 2016.

an outside business without prior written approval from IRS management. In addition to his criminal conduct, Brewer violated these regulations by preparing fraudulent Federal tax returns for taxpayers in exchange for a fee and by operating a personal business selling items through eBay® without proper approval.<sup>51</sup>

Between 2010 and 2015, Brewer prepared nine fraudulent tax returns for others that contained false statements relating to dependents, filing status, itemized deductions, business profits or losses, and residential energy credits. The false statements on these tax returns either caused the clients to receive a refund when they otherwise would not have or caused inflated refunds. Brewer earned money preparing the returns by diverting a portion of the taxpayers' refunds to bank accounts within his control. In some cases, the taxpayers believed Brewer had prepared their tax returns as a favor and were unaware Brewer had diverted or attempted to divert a portion of their refunds to his bank accounts.<sup>52</sup>

In furtherance of his scheme, for TYs 2011, 2012, and 2013, Brewer made fraudulent claims on his own tax returns, which he filed jointly with his current wife, claiming fraudulent dependents, underreporting the gross receipts of his eBay business, claiming false deductions, and failing to report money earned preparing tax returns for others. By making these false claims, Brewer fraudulently reduced his taxable income and increased the amount of his tax refunds. Between January 2012 and February 2015, Brewer electronically filed 11 of the 12 fraudulent returns from Staten Island, New York, including two of his own.<sup>53</sup>

According to the Government's Sentencing Memorandum, although Brewer was not required to plead guilty to aggravated identity theft, he committed that offense on a number of occasions. Brewer used at least nine different victims' names and SSNs in order to falsely claim them as dependents on his own tax returns and returns he filed for others. The victims were people with whom Brewer or his family had previous interactions, and they had entrusted Brewer or his family members with their PII. Two victims worked for Brewer's aunt, another victim previously dated Brewer's mother, and yet another victim was the minor child of Brewer's best friend.<sup>54</sup>

Further, Brewer perjured himself by knowingly making false declarations to the U.S. Tax Court in 2012, while under oath. Brewer had falsely claimed the First-Time Homebuyer Credit on his 2008 Federal return. This credit was established for

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51 E.D.N.Y. Indict. filed Apr. 24, 2015.

52 E.D.N.Y. Superseding Indict. filed Aug. 4, 2016.

53 *Id.*

54 E.D.N.Y. Government's Sentencing Memorandum filed May 5, 2017.

taxpayers who purchased a new home in 2008, 2009, or 2010; however, taxpayers who owned a principal residence during the three years prior to the date of purchase of the new home were not eligible for the \$7,500 tax credit. Brewer did not meet the eligibility conditions for the credit because he owned and used his Staten Island property as his principal residence until he and his wife at the time purchased a home in Avenel, New Jersey, in 2008. After Brewer was notified that the IRS had disallowed the credit, he appealed the decision and a trial was held in U.S. Tax Court. During the trial, Brewer lied, testifying under oath that he did not live in his Staten Island residence for any part of the three years prior to his purchase of the Avenel home.<sup>55</sup>

Brewer was sentenced to six months' imprisonment, followed by one year of supervised release, and was ordered to pay restitution to the IRS in the amount of \$73,548. Further, Brewer is to refrain from engaging in any employment which involves the preparation or filing of income tax returns for anyone other than himself and must fully cooperate with the IRS regarding his returns, reporting all correct taxable income, and claiming only allowable expenses.<sup>56</sup>

## **Employee Integrity**

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

### **IRS Employee Charged for Making False Statements**

On June 13, 2017, in the District of New Jersey, IRS employee Chandra Porter was charged via a criminal complaint for making materially false, fictitious, and fraudulent statements and representations, and for making and using false documents, in order to defer the repayment of student loans provided by the United States.<sup>57</sup> This matter was investigated jointly by special agents of TIGTA and the U.S. Department of Education's Office of the Inspector General.

According to the court documents, Porter, a resident of Brunswick, New Jersey, while employed full-time by the IRS as a revenue officer earning approximately \$87,000 in gross salary each year, knowingly and willfully signed and submitted false Federal Family Education Loan Program (FFELP) Unemployment Deferment Request Forms in 2012, 2013, and 2016. On these forms, she represented that she was unemployed

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55 E.D.N.Y. Indict. filed Apr. 24, 2015.

56 E.D.N.Y. Judgment filed May 22, 2017.

57 D.N.J. Crim. Compl. filed June 13, 2017.

and was diligently seeking but unable to find full-time employment, in order to defer the repayment of student loans.<sup>58</sup>

Porter's child was enrolled as a student in a college education program located in Los Angeles, California, between about 2008 and about 2010. During this time, the Department of Education was administering the FFELP to assist families with students at colleges and graduate schools in obtaining financial aid for their educational expenses.<sup>59</sup>

In connection with the program, the Department of Education offered families several options for borrowing money for college tuition. One such program was the Direct Plus Loan (DPL), which enabled eligible parents of dependent students to borrow up to the cost of the child's education, minus any other financial aid received. Federal regulations required that DPL borrowers complete an Application and Master Promissory Note (AMPN) which included, among other information, a description of the terms and conditions of the FFELP loan for which the borrower applied, including an explicit promise to pay to the lender all loan amounts disbursed under the terms of the AMPN.<sup>60</sup>

A borrower could apply for deferments based upon certain conditions, such as unemployment and economic hardship, but had to complete, sign, and submit to the loan holder an application requesting the deferment. Each deferment application contained a header with a warning to the borrower that advised of possible criminal penalties under the U.S. Criminal Code, among other laws, for persons who knowingly made a false statement or misrepresentation on the application or on any accompanying document.<sup>61</sup>

Porter signed and dated a completed DPL AMPN on or about June 16, 2008, for her child's college tuition. A total of approximately \$49,179 in FFELP funds was disbursed as tuition payments between about July 2008 and about March 2009. The repayment of the loan was deferred while Porter's child was enrolled in college.<sup>62</sup>

Following her child's completion of the college program, the loan reverted to repayment status, and beginning on or about December 17, 2010, Porter was required to pay approximately \$303 per month to the loan holder. However, Porter began

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58 *Id.*

59 *Id.*

60 *Id.*

61 *Id.*

62 *Id.*

submitting deferment applications on or about April 28, 2011, falsely representing that she was unemployed or was working less than full-time, when, in fact, Porter was gainfully employed full-time at the IRS. Porter further fraudulently represented, by checking off a box on these applications, that, among other things, she was diligently seeking but unable to find full-time employment in any field or at any salary or responsibility level. In some instances, Porter faxed, or caused to be faxed, the deferment applications containing the false representations to the loan handler from a fax machine at Porter's place of work at the IRS. The aggregate outstanding balance on the DPL loans owed by Porter is approximately \$86,348.<sup>63</sup> Additional legal actions are pending.

### **IRS Employee Arrested for Theft of Government Funds**

On April 26, 2017, in the Eastern District of Pennsylvania, TIGTA agents arrested IRS employee Tyrell Moncrief for the theft of Government money.<sup>64</sup> Moncrief was indicted for the offense on April 11, 2017.<sup>65</sup>

According to the court documents, Moncrief worked as a contact representative for the IRS in Philadelphia, Pennsylvania, beginning about October 2008, and in October 2014, he was promoted from a seasonal employee to a permanent employee.<sup>66</sup>

From approximately January 31, 2010 to January 11, 2014, while employed in a seasonal status, Moncrief stole and knowingly converted to his own use money and property of the United States. Specifically, during this period Moncrief accessed by telephone on a weekly basis the Interactive Claims Response System at the Pennsylvania Department of Labor to determine his eligibility for unemployment compensation benefits. Moncrief answered a series of questions during the accesses in which he falsely stated that he was not working and that work was not available, when, in fact, he was working at, and being paid by, the IRS. Moncrief fraudulently obtained a total of approximately \$38,967 in unemployment compensation benefits to which he was not entitled.<sup>67</sup>

Moncrief could face a maximum sentence of 10 years' imprisonment. Additional legal actions are anticipated.

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63 *Id.*

64 E.D. Pa. Executed Arrest Warrant filed May 8, 2017.

65 E.D. Pa. Indict. filed Apr. 11, 2017.

66 *Id.*

67 *Id.*

## Employee Integrity Projects

As part of its Employee Integrity focus, TIGTA conducts proactive investigative initiatives to detect misconduct in the administration of IRS programs. During this reporting period, TIGTA initiated nine proactive projects to detect systemic weaknesses or potential IRS program vulnerabilities. TIGTA's most successful integrity project involves the detection of IRS employees who abuse their access to taxpayer information in order to commit identity theft and other crimes.

## 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 871 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.

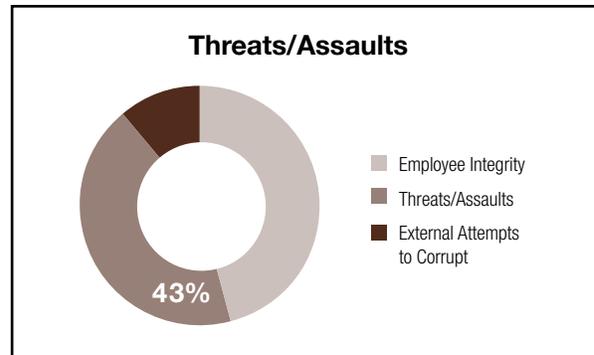
TIGTA's special agents are statutorily mandated to provide physical security, known as "armed escorts," to IRS employees who have face-to-face contact with a taxpayer who may pose a danger to the employee, and to ensure that IRS employees have a secure environment in which to perform their critical tax administration functions. During this six-month reporting period, OI provided 33 armed escorts for IRS employees.

The Office of Investigations undertakes investigative initiatives to identify individuals who could commit violence against, or 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 employees.

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.

During this six-month reporting period, threat and assault investigations accounted for 43 percent of OI’s work.

The following cases represent OI’s efforts to ensure the safety of IRS employees during the reporting period:



### **Washington Man Arrested and Charged With Mailing Fake Pipe Bomb to the IRS**

On September 6, 2017, in the Western District of Washington, Normand Lariviere was indicted for mailing threatening communications to the IRS and conveying false information and a hoax that could be reasonably believed to cause malicious damage to an agency of the United States.<sup>68</sup> Lariviere was initially charged for mailing the threat on July 7, 2017, in a criminal complaint,<sup>69</sup> and agents from TIGTA and the Federal Protective Service (FPS) arrested Lariviere on the same date.<sup>70</sup>

According to the court documents, on or about June 30, 2017, Lariviere knowingly and willingly deposited into a U.S. Postal Service depository a communication addressed to the IRS in Ogden, Utah, that contained a threat to injure Federal employees.<sup>71</sup>

On July 6, 2017, the IRS office in Ogden received a package from Olympia, Washington, containing a metal pipe approximately six inches long with end caps on both sides. The explosive ordinance team of the Davis County Sheriff’s Office responded to the facility, the building was evacuated and, through the use of a robot, the ordinance team deemed the package to be safe. Within the package were several letters sent from the IRS to Lariviere and a photograph of Lariviere. The galvanized pipe was approximately two inches in diameter and had a fuse coming out of one end with a whistle attached. Blue tape was visible on the exterior of the pipe with the words, “Kilroy was here” written on it. “MKIIMod9” was also written on the exterior of the pipe.<sup>72</sup>

68 W.D. Wash. Indict. filed Sep. 6, 2017.

69 W.D. Wash. Crim. Compl. filed July 7, 2017.

70 W.D. Wash. Crim. Docket filed Sep. 6, 2017.

71 W.D. Wash. Crim. Compl. filed July 7, 2017.

72 *Id.*

When agents interviewed Lariviere, he admitted to sending the device to the IRS office in Ogden and said he hoped it caused a lot of concern, as he intended it to look like a “pipe bomb.” Lariviere described how he made the device, where he purchased the components, and where he mailed the package. Lariviere said, “Good, I knew they would be concerned, that wasn’t my concern, I wasn’t going to let that hold me back.” He said that the U.S. Government is turning him into a “jihadi” and that he feels as though he is self-radicalized.<sup>73</sup>

When asked what his response would be if he did not get the desired result from the Federal Government, Lariviere said, “I don’t have a choice if I don’t get an answer. Many things I could do. I’m not going to say...I’m not going to tip my hand.” He further indicated that at some point in the future he will use the mail system to send another device because letters do not work.<sup>74</sup>

Lariviere has sent several mailings to the IRS in the past. In 2016, one such mailing included Lariviere’s severed finger and a bullet. In another 2016 mailing, Lariviere included a marijuana cigarette and documents previously received from the IRS. Other mailings have included frivolous documents regarding the legality of the tax code. Lariviere admitted to severing his own finger and also said he does not believe he should be paying taxes, since the Government is not paying attention to his claims.<sup>75</sup>

Lariviere previously served in the U.S. Navy for eight years and was subsequently employed as a civilian electrician for the Navy until it had a Reduction in Force action in the early 1990s. Lariviere has grievances against a number of agencies that are associated with the Reduction in Force, including the IRS, the Department of Veterans Affairs, the Office of Personnel Management, the Department of Defense, the Office of Special Counsel, and the Merit Systems Protection Board.<sup>76</sup>

Lariviere had been detained since the time of his arrest on July 7, 2017, as the court deemed him to be a danger to the community and himself.<sup>77</sup> On September 13, 2017, the Court found Lariviere competent to stand trial, and he was released on an appearance bond. A jury trial has been set for November 13, 2017.<sup>78</sup>

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73 *Id.*

74 *Id.*

75 *Id.*

76 *Id.*

77 W.D. Wash. Detention Order filed July 12, 2017; W.D. Wash. Order Continuing Detention filed Sep. 6, 2017.

78 W.D. Wash. Crim. Docket as of Sep. 14, 2017.

## California Man Found Guilty of Threatening Federal Officials at IRS Office

On July 17, 2017, in the Northern District of California, Hung Ha was found guilty in a jury trial of threatening a Federal law enforcement officer or official.<sup>79</sup> Ha was indicted for the offense in April 2015<sup>80</sup> and has been in custody pending trial<sup>81</sup> since his April 7, 2015, arrest.<sup>82</sup>

According to the court documents, Ha threatened to assault and murder at least five Federal employees working at the IRS Taxpayer Assistance Center (TAC) located in San Jose, California. Ha did so with the intent to impede, intimidate, and retaliate against these individuals on account of the performance of their official duties.<sup>83</sup>

On multiple occasions between October 2014 and April 2015, Ha made threatening statements to Federal officials and behaved in a threatening manner. Ha had requested a tax refund from the IRS for TYs 2007 and 2008, but his request was denied. Following the denial, Ha visited the TAC seeking reconsideration of his claim, and his case was then assigned to the IRS Taxpayer Advocate Service (TAS). In October 2014, Ha contacted the assigned TAS employee telephonically, but became verbally abusive when she attempted to explain the status of his case. He then left 23 additional voice messages in a span of 45 minutes that were laced with profanity and threats. In one message, Ha said that he wished the employee's family would die and that "I will die with you guys."<sup>84</sup>

In December 2014, Ha returned to the TAC in San Jose to seek additional assistance and was reminded that his case had been assigned to the TAS. Ha refused to accept the information and became extremely loud and disruptive, causing some IRS employees to become concerned for their safety. On more than one occasion, Ha said that he was going to blow up the building the next time he came there. He said that he did not care if he went to jail and would do what he had to do. As a result of the threats, Ha was prohibited from returning to the TAC.<sup>85</sup>

Nevertheless, in February 2015, Ha returned to the TAC and was quickly identified. An FPS inspector made contact with Ha at the IRS facility. When Ha became

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79 N.D. Cal. Verdict filed July 17, 2017.

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

81 N.D. Cal. Order of Detention filed Apr. 17, 2015.

82 N.D. Cal. Crim. Docket as of Aug. 11, 2017.

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

84 N.D. Cal. Crim. Compl. filed Apr. 3, 2015.

85 *Id.*

combative, he was placed in handcuffs and cited for trespassing. While Ha was being escorted to the inspector's vehicle, he attempted to spit on the physical security officer and the inspector. Further, he attempted to head-butt the inspector in the face. Ha was formally advised he would be subject to arrest if he returned to the TAC again.<sup>86</sup>

In March 2015, Ha was again cited, this time for disorderly conduct, after entering the TAC and grabbing a large quantity of blank IRS forms and throwing them throughout the office lobby.<sup>87</sup>

On April 1, 2015, Ha once again returned to the TAC, became disruptive, and was escorted from the building, but insisted he would return the following day. Ha did return to the building the next day and was immediately met by a security guard. Ha resisted the guard's attempts to remove him, threatened to bite him, and then threatened to return to the TAC with a gun to shoot everybody inside. The IRS employees feared for their safety and indicated that Ha's conduct had become louder, angrier, and more hostile and aggressive with each visit to the IRS office. On April 3, 2015, a criminal complaint was filed against Ha and a probable cause warrant was issued.<sup>88</sup>

Ha could face a maximum of 10 years' imprisonment. His sentencing is scheduled for October 11, 2017.<sup>89</sup>

### **Michigan Man Threatened to Shoot IRS Employees**

On April 4, 2017, a criminal complaint was filed in the Eastern District of Michigan charging Timothy Bradley Darling with assaulting, resisting, or impeding certain officers or employees of the United States.<sup>90</sup> An information was subsequently filed on August 3, 2017, charging Darling with the offense.<sup>91</sup>

According to the court documents, on Friday, March 31, 2017, TIGTA received information from the IRS regarding a phone call that an IRS contact representative had received on that same date from Darling, during which he essentially stated that he would go to the IRS on Monday and shoot employees. The contact representative who took the call indicated that Darling sounded agitated, and the contact

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86 *Id.*

87 *Id.*

88 *Id.*

89 N.D. Cal. Crim. Docket as of Aug. 11, 2017.

90 E.D. Mich. Crim. Compl. filed Apr. 4, 2017.

91 E.D. Mich. Info. filed Aug. 3, 2017.

representative was scared. A review of the recorded conversation confirmed that Darling indeed said, “I’ll show up to the IRS downtown Monday morning with a gun. I’ll be shooting one employee for every \$100 you owe me.”<sup>92</sup>

Agents made multiple attempts to contact Darling, both in person and by telephone. His mother said he no longer lived at a Carleton, Michigan, residence. She did not know where he was, but thought he was living in his car. Darling’s mother explained that she had filed a Personal Protection Order against him because of threats he had recently made towards her. When agents attempted several times to contact Darling by phone, he either answered and hung up, told them to leave him alone and take the money, or ignored the call and subsequent voicemail.<sup>93</sup>

On September 14, 2017, Darling pled guilty to threatening and intimidating employees of the IRS who were acting in their official capacity.<sup>94</sup> He could face a maximum of one year in prison for the threats. Sentencing is scheduled for January 4, 2018.<sup>95</sup>

## 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 IRS employees to obtain PII from unsuspecting taxpayers or to defraud them out of their money. Such 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 that they owe money to the IRS that must be paid through a pre-loaded debit card, wire transfer, or iTunes® gift cards. Sometimes taxpayers are tricked into providing their PII, which the impersonator uses to commit identity theft.

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92 *Id.*

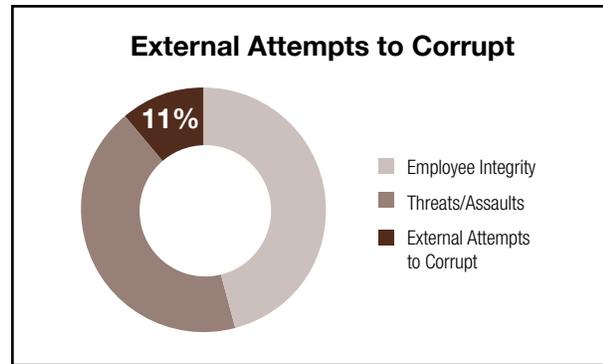
93 *Id.*

94 E.D. Mich. Plea Agr. filed Sep. 14, 2017.

95 E.D. Mich. Crim. Docket as of Sep. 15, 2017.

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.



## 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. 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 is, once again, included in the IRS’s 2017 “Dirty Dozen” list.<sup>96</sup>

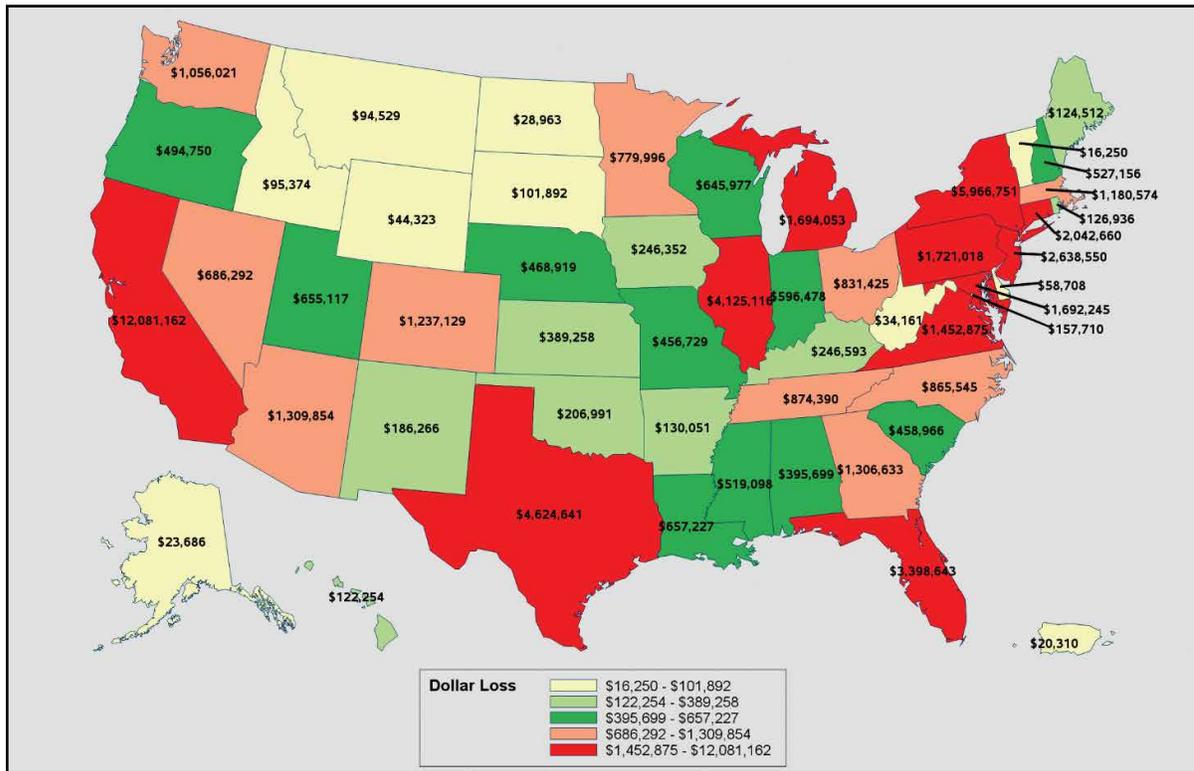
Between October 2013 and September 2017, TIGTA logged more than 2.1 million contacts from taxpayers who reported that they had received telephone calls from individuals who claimed to be IRS employees. The impersonators told the victims that they owed additional tax and that if they did not immediately pay they would be arrested, lose their driver’s licenses, or face other adverse consequences. As of September 30, 2017, more than 12,027 victims reported that they had paid the impersonators a total of more than \$60.7 million.

Because of their complexity, scams such as these are not typically resolved quickly. The impersonation scam has claimed victims in every State. The top five States with victims who have suffered financial losses are: California, New York, Texas, Illinois, and Florida.

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<sup>96</sup> <https://www.irs.gov/uac/newsroom/dirty-dozen>

## Financial Losses by State



In addition to its investigative efforts, TIGTA has taken numerous other steps to combat the IRS impersonation scam and protect taxpayers from being victimized. Specifically, OI created a three-pronged “Advise and Disrupt” strategy. The first part of this strategy involves analyzing the telephone numbers reported to TIGTA. If a number is confirmed to be part of the scam, OI identifies the telephone carrier and requests that the carrier take the number down.

The second part of the strategy is to post scam-related telephone numbers on the Internet, which allows potential victims to determine if the call they received was a part of the scam.

The final part of the strategy is to deploy a TIGTA auto-dialer to call back the impersonators with a message ordering them to cease and desist their criminal activity, while also occupying the impersonators’ time and telephone lines. This has resulted in more than 146,060 auto-dialed calls back to the scammers.

As of September 30, 2017, more than 1,279 telephone numbers associated with the scam have been identified using the Advise and Disrupt strategy, and 94 percent of them have been successfully shut down, in some cases within a week.

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.

“Although the investigations and prosecutions have reduced the number of scam calls being placed by over 90 percent, we are still receiving reports that between 5,000 and 10,000 people are receiving calls each week. Fortunately, thanks to extensive public outreach efforts, the vast majority of those called are now simply hanging up on the scammers.”

– J. Russell George, *Treasury Inspector General for Tax Administration*  
July 26, 2017 Testimony Before Committee on Appropriations,  
Subcommittee on Financial Services and General Government  
United States Senate

TIGTA is also dedicated to educating the public about identity theft and IRS impersonation scams in its efforts to prevent fraud against the IRS and to protect U.S. taxpayers from falling prey to these scams. TIGTA has been working closely with the IRS, the Federal Trade Commission (FTC), the Federal Communications Commission (FCC), the Consumer Financial Protection Bureau, the Veteran’s Administration (VA), the Department of Justice Elder Justice Initiative, the Offices of the U.S. Attorneys, 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 to this current scam.

TIGTA urges taxpayers to remain on “high alert” and continues to conduct outreach efforts to prevent them from falling victim to criminals who impersonate IRS and Treasury Department employees. This expanded outreach includes public service announcements (PSA), available on *YouTube.com* in English and Spanish, that warn taxpayers about the scam. The PSA videos have received more than 75,000 views, and TIGTA has provided approximately 100 print and broadcast interviews, resulting in more than 4,400 news stories in both large and small media markets, with an estimated 113 million views.

In addition, TIGTA provided testimony about the scams to two congressional committees, and on August 14, 2017, participated in Senator Robert P. Casey, Jr.’s Conference on Aging at Wilkes University. Besides TIGTA’s Deputy Inspector General for Investigations, the conference panel included Senator Casey and other Pennsylvania leaders



focused on the prevention of frauds and scams targeting seniors, as well as on other issues of importance to older Pennsylvanians.

The Office of Investigations is also working with its partners in the public and private sectors to help get the word out, both through traditional law enforcement channels and through direct outreach to associations, nongovernmental organizations, and the media.

As part of its collaboration with the FTC and the FCC, OI began working with the USTelecom Consortium and the RoboCall Task Force to identify how technology might be used to stop the spoofed calls that were being placed by call centers located in India. In one successful pilot program, TIGTA and the Department of Homeland Security worked with Verizon to block almost two million calls that had been spoofed to appear as though the calls originated from the IRS.

As the impersonation scam progressed, OI worked with the private sector companies who were caught in the middle of this massive fraud. The companies whose services or products were used by the impersonators to monetize the scam cooperated by using techniques to help warn consumers. For example, when a prepaid debit card is purchased, there is a fraud warning that now appears on the signature screen. Likewise, MoneyGram has placed banners on its kiosks advising customers that if they have been told to pay their taxes by MoneyGram, it is a scam and they should not proceed with the transaction.

Since Apple iTunes cards were being used 70 to 80 percent of the time by the impersonators as a means of cashing in on the fraud, Apple worked with TIGTA to create an audio message to help protect consumers. Apple also agreed to fund the nationwide distribution of this message at grocery and convenience stores, which resulted in more than 46 million consumers hearing this valuable message. Further, Walmart has agreed to train its employees on how to recognize the fraud, post warning placards, and place fraud warning messages on cash envelopes.

## **Impersonation Scams**

The following cases represent OI's efforts to investigate impersonation scams during this six-month reporting period:

### **Two Individuals Indicted in Houston for Their Role in an IRS Impersonation Scam**

On May 25, 2017, in the Southern District of Texas, Vedas Engineer and Bhavdip Sanghavi were indicted for conspiracy to commit wire fraud and wire fraud in

connection with a scheme involving the impersonation of IRS employees. Engineer was also charged with mail fraud.<sup>97</sup>

According to the court documents, from about June 2015 until May 2017, Engineer, Sanghavi, and others knowingly conspired to intentionally devise a scheme to defraud and to obtain money by means of false and fraudulent representations. The purpose of the conspiracy was to fraudulently obtain payments for fictional taxes owed to the IRS. The defendants posed as IRS agents and unlawfully pressured victims to send purported delinquent taxes to persons in the Houston area via wire or mail. They then utilized runners to acquire the money.<sup>98</sup>

Specifically, taxpayers received telephone calls from persons falsely representing themselves to be employees of the IRS. The callers told their victims that they owed money to the IRS and would then use various methods of intimidation and threats to convince their victims to pay money immediately in order to resolve their tax debt.<sup>99</sup>

The victims would generally be directed to a MoneyGram or Western Union location to immediately wire the funds. Sometimes they were directed to deposit the money into a particular bank account so the funds could be transferred electronically, or to wire the money in several installments to several different recipients, breaking up the transactions so they could not be detected as easily. Based on the instructions given by the conspirators, the victims would comply.<sup>100</sup>

Engineer and Sanghavi would take the specific runner whom they had identified as the recipient of the money in the conversation with the victim to the location where the funds were being sent. The runner would then pick up the money and provide it to Engineer and Sanghavi, receiving a small payment for his/her participation. Some runners were encouraged to open bank accounts for the purpose of having victims' funds wired into them. Engineer and Sanghavi used at least 17 different runners in the scheme and changed them frequently in an effort to divert attention from the fraud.<sup>101</sup>

On or about May 2, 2017, a small business owner in Shreveport, Louisiana, reported that he had fallen victim to the IRS impersonation scam. He had been contacted by individuals claiming to be IRS employees and directed to send a \$25,000 cashier's

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97 S.D. Tex. Indict. filed May 25, 2017.

98 *Id.*

99 *Id.*

100 *Id.*

101 *Id.*

check via UPS overnight mail to an address in Houston, Texas. The victim believed that the funds were to satisfy a purported tax liability and that the recipient was an IRS attorney. Agents from TIGTA witnessed the delivery of the UPS package to the specified address and observed a male, identified as Engineer, sitting in a vehicle parked one to two houses away. Agents made contact with Engineer and he agreed to meet with TIGTA agents on May 8, 2017, with his attorney. Approximately two hours before the scheduled meeting, TIGTA received information indicating that Engineer was attempting to leave the country via a flight from Chicago's O'Hare airport for his native country of India.<sup>102</sup> TIGTA agents subsequently arrested Engineer on the same date in Chicago, Illinois,<sup>103</sup> and he has been ordered detained pending trial.<sup>104</sup>

Based on criminal complaints filed on May 9, 2017, alleged participants Sanghavi<sup>105</sup> and Kautilya Vyas were also arrested by TIGTA agents.<sup>106</sup>

On July 25, 2017, Engineer pled guilty to conspiracy to commit wire fraud. The factual basis for the guilty plea indicated that more than \$1.7 million had been wired to Engineer and his coconspirators during the conspiracy.<sup>107</sup> Engineer's sentencing is scheduled for October 18, 2017. A jury trial has been set to begin on October 30, 2017, for Sanghavi,<sup>108</sup> and additional legal actions are anticipated for Vyas.<sup>109</sup>

### **Florida Man Sentenced for His Role in IRS Impersonation Scam**

On June 15, 2017, in the Southern District of Florida, Abhijeetsinh Jadeja was sentenced for conspiracy to commit wire fraud and aggravated identity theft<sup>110</sup> for his role in a telephone fraud scheme. Jadeja was initially indicted, along with coconspirator Rachel Jean Roragen, for these and other offenses in January 2017,<sup>111</sup> and both were subsequently arrested by special agents from TIGTA and Homeland Security Investigations (HSI). Jadeja pled guilty in March 2017.<sup>112</sup>

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102 S.D. Tex. Crim. Compl. filed May 8, 2017.

103 S.D. Tex. Executed Arrest Warrant filed May 23, 2017.

104 S.D. Tex. Crim. Docket as of June 8, 2017.

105 *Id.*

106 S.D. Tex. Crim. Docket 4:17-mj-00731 filed May 9, 2017.

107 S.D. Tex. Plea Agr. filed July 25, 2017.

108 S.D. Tex. Crim. Docket 4:17-cr-00312 as of Aug. 23, 2017.

109 S.D. Tex. Crim. Docket 4:17-mj-00731 as of Aug. 23, 2017.

110 S.D. Fla. Amended Judgment filed June 29, 2017.

111 S.D. Fla. Indict. filed Jan. 30, 2017.

112 S.D. Fla. Plea Agr. filed Mar. 24, 2017.

According to the court documents, from approximately January 2014 through May 2016,<sup>113</sup> Jadeja knowingly and willfully conspired with others to defraud victims and obtain money through false and fraudulent representations.<sup>114</sup> Specifically, Jadeja participated, along with coconspirators Roragen and Anandkumar Jayantila Nayee, in a conspiracy to contact victims by telephone and tell them that they owed income tax payments to the IRS or owed fees for grants or loans that they had purportedly received. The victims were instructed to deposit payments related to the taxes or fees onto debit cards and into bank accounts controlled by Jadeja, Roragen, Nayee, and other coconspirators.<sup>115</sup>

In February 2014, law enforcement had found Jadeja to be in possession of more than 90 Green Dot® prepaid debit cards, more than \$6,000 in money orders purchased on one specific date, and sales receipts for the purchase of money orders in the prior two months totaling approximately \$98,000. Many of the debit cards were subsequently determined to have been funded by victims of the IRS impersonation scam and other telephone scams.<sup>116</sup> During his 2014 contact with law enforcement, Jadeja admitted his involvement in the telephone fraud scheme, said that he was working with Nayee, and admitted that he had received financial compensation for his participation.<sup>117</sup> Jadeja stated that Nayee was linked to call centers in India and was his point of contact in India. Jadeja indicated that he provided the prepaid debit card information to Nayee, and that Nayee then specified the subsequent transactions he was to conduct with the funds.<sup>118</sup>

When Jadeja was arrested on January 30, 2017, he said that he had continued to work with Nayee following his 2014 encounter with law enforcement and that Nayee was now living in Pembroke Pines, Florida. Until a few days prior to his arrest, Jadeja had continued to pick up wire transfers for Nayee and to deposit funds into bank accounts specified by Nayee.<sup>119</sup>

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113 S.D. Fla. Factual Proffer filed Mar. 24, 2017.

114 S.D. Fla. Indict. filed Jan. 30, 2017.

115 S.D. Fla. Factual Proffer filed Mar. 24, 2017.

116 S.D. Fla. Crim. Compl. filed Feb. 8, 2017.

117 S.D. Fla. Factual Proffer filed Mar. 24, 2017.

118 S.D. Fla. Crim. Compl. filed Feb. 8, 2017.

119 *Id.*

Nayee was arrested on February 6, 2017,<sup>120</sup> by TIGTA and HSI agents and pled guilty to conspiracy to commit wire fraud and aggravated identity theft on June 1, 2017.<sup>121</sup> He was sentenced on August 11, 2017, to 40 months in prison, followed by three years of supervised release.<sup>122</sup> Nayee is scheduled for a restitution hearing on November 1, 2017.<sup>123</sup>

Roragen pled guilty to wire fraud in March 2017,<sup>124</sup> and on June 16, 2017, was sentenced to three years of supervised probation. Roragen was also ordered to perform 40 hours of community service per month as directed by the probation office,<sup>125</sup> and a forfeiture money judgment was entered against her in the amount of \$28,400<sup>126</sup> for victims' funds that had been deposited into bank accounts belonging to her.<sup>127</sup>

Jadeja was sentenced to 36 months' imprisonment, followed by three years of supervised release. He was ordered to pay restitution in the amount of \$15,395, \$13,600 of which is joint and several with coconspirator Roragen.<sup>128</sup> Additionally, a forfeiture money judgment was entered against Jadeja in the amount of \$167,400.<sup>129</sup> Upon completion of his term of imprisonment, Jadeja shall be surrendered to the custody of U.S. Immigration and Customs Enforcement for removal proceedings consistent with the Immigration and Nationality Act.<sup>130</sup>

## **Two Individuals Plead Guilty in Connecticut for Roles in IRS Impersonation Scam**

On June 12, 2017, in the District of Connecticut, Nancy J. Frye pled guilty to conspiracy to commit wire fraud for her role in a scheme involving the impersonation of IRS employees.<sup>131</sup> Coconspirator Douglas Martin pled guilty to the same offense on

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120 S.D. Fla. Crim. Docket 1:17-cr-20189-CMA filed Mar. 14, 2017.

121 S.D. Fla. Plea Agr. 1:17-cr-20189-CMA filed June 1, 2017.

122 S.D. Fla. Judgment 1:17-cr-20189-CMA filed Aug. 14, 2017.

123 S.D. Fla. Crim. Docket 1:17-cr-20189-CMA as of Aug. 14, 2017.

124 S.D. Fla. Plea Agr. filed Mar. 24, 2017.

125 S.D. Fla. Judgment filed June 21, 2017.

126 S.D. Fla. Order of Forfeiture filed June 14, 2017.

127 S.D. Fla. Factual Proffer filed Mar. 24, 2017.

128 S.D. Fla. Amended Judgment filed June 29, 2017.

129 S.D. Fla. Order of Forfeiture filed June 14, 2017.

130 S.D. Fla. Amended Judgment filed June 29, 2017.

131 D. Conn. Plea Agr. filed June 12, 2017.

May 18, 2017.<sup>132</sup> Both were initially arrested by TIGTA special agents on September 15, 2016, in Bristol, Connecticut.<sup>133</sup>

According to the court documents, both Frye and Martin have prior criminal convictions. In 2012, Frye was convicted of first degree larceny for stealing more than \$185,000 from her father as his conservator. Martin is a multi-convicted felon whose convictions include assault, burglary, and larceny, among other offenses.<sup>134</sup>

From about October 2015 until about June 2016,<sup>135</sup> Frye, Martin, and others knowingly and willfully conspired to devise a scheme to defraud others and obtain money through false representations. The scheme to defraud in this matter involved individuals representing themselves as employees of the IRS, in order to use the IRS's administrative and criminal authority to obtain money from others.<sup>136</sup>

Frye, Martin, and their coconspirators made unsolicited telephone calls in which they falsely represented themselves as IRS agents or officers calling on behalf of the IRS. During the calls, the impersonator would tell the call recipient that the recipient had an outstanding debt with the IRS that must be paid immediately. The impersonator would then threaten the individual with either arrest or a lawsuit if he/she did not immediately settle the nonexistent IRS debt. At times, the scheme participants provided identification information, including badge numbers, department and work titles, and telephone numbers, that appeared to be legitimately associated with the IRS.<sup>137</sup>

Victims were directed to wire money to individuals they believed were employees of the IRS to avoid the threatened action.<sup>138</sup> In furtherance of the conspiracy, Frye would receive telephone calls and text messages from individuals who had successfully recruited her to pick up money that was wired through MoneyGram and Western Union and to deposit the money into specific bank accounts. Frye, in turn, recruited Martin and others to assist her in picking up the wired funds from various locations

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132 D. Conn. Plea Agr. filed May 18, 2017.

133 D. Conn. Executed Arrest Warrant filed Sep. 23, 2016; D. Conn. Executed Arrest Warrant filed Sep. 23, 2016.

134 D. Conn. Crim. Compl. filed Sep. 13, 2016.

135 D. Conn. Plea Agr. filed June 12, 2017.

136 D. Conn. Info. filed May 18, 2017.

137 D. Conn. Plea Agr. filed June 12, 2017.

138 *Id.*

in Connecticut. Frye then deposited the money that she collected into the bank accounts.<sup>139</sup>

One New York victim was told that failure to make immediate payment would result in arrest. The victim then travelled to three separate locations to make the payments as directed. Another victim, from Connecticut, received two voicemail messages from someone claiming to be an IRS investigator and instructing the victim to contact Officer Ryan Wilson of IRS “Criminal and Investigative Department.” The victim called as directed and was told that he/she owed more than \$6,300 in taxes. The victim wrote a check and deposited it into a Bank of America account as instructed. Another impersonator then told the victim that an additional amount of more than \$4,600 was owed to cover the fees for the sheriff and the court. The victim wired an additional \$2,900 via Western Union before discovering that he/she had been scammed.<sup>140</sup> Frye and others working at her direction received approximately \$583,391<sup>141</sup> from as many as 527 victims.<sup>142</sup> Frye received approximately \$40 per transaction and made approximately \$500 per day.<sup>143</sup>

Frye and Martin each could face a maximum sentence of 20 years’ imprisonment.<sup>144</sup> Martin’s sentencing is scheduled for October 18, 2017, and Frye is scheduled for sentencing on November 15, 2017.<sup>145</sup>

### **Ohio Woman Sentenced for Participating in Bogus Sweepstakes Scheme**

On August 23, 2017, Lashell Patton was sentenced in the Northern District of Ohio for conspiring to commit wire fraud as part of a bogus sweepstakes scheme.<sup>146</sup> Patton had pled guilty to the offense in April 2017.<sup>147</sup>

Patton was indicted on January 5, 2017,<sup>148</sup> for conspiring with others to defraud a victim by falsely telling him that he had won \$3 million in a sweepstakes, but that he

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139 D. Conn. Crim. Compl. filed Sep. 13, 2016.

140 D. Conn. Plea Agr. filed June 12, 2017.

141 *Id.*

142 D. Conn. Info. filed May 18, 2017.

143 D. Conn. Crim. Compl. filed Sep. 13, 2016.

144 D. Conn. Plea Agr. filed June 12, 2017; D. Conn. Plea Agr. filed May 18, 2017.

145 D. Conn. Crim. Docket as of Aug. 24, 2017.

146 N.D. Ohio Judgment filed Aug. 23, 2017.

147 N.D. Ohio Plea Agr. filed Apr. 4, 2017.

148 N.D. Ohio Indict. filed Jan. 5, 2017.

had to pay taxes and fees before the winnings would be distributed.<sup>149</sup> Between July 2015 and April 2016, the victim sent 15 Western Union money wires to Patton totaling \$11,615 and 111 MoneyGram money wires totaling \$90,090.<sup>150</sup>

Patton was sentenced to six months' incarceration with credit for time served, plus three years of supervised release, six months of which will require location monitoring. Patton was further ordered to pay restitution in the amount of \$101,705.<sup>151</sup>

### **Multiple Individuals Enter Guilty Pleas for Their Roles in IRS Impersonation Scam**

In October 2016, TIGTA announced that the U.S. Department of Justice in the Southern District of Texas had indicted 56 individuals, some of whom were located within the United States, plus five call centers located in India, with conspiracy to defraud the United States, conspiracy to commit wire fraud, money laundering conspiracy, and false statements in the application for a passport.<sup>152</sup>

From about January 2012 and continuing until about October 2016, the defendants knowingly and intentionally conspired with each other and others to devise a scheme to defraud and obtain money by means of false and fraudulent pretenses. The indictment included five major call centers, all located in Ahmedabad, Gujarat, India, that were used in connection with the scheme to defraud U.S. residents by misleading them into sending money in connection with a number of different scams. One of the scams involved the impersonation of IRS officers, and defrauded U.S. residents by misleading them into believing that they owed money to the IRS and would be arrested and fined if they did not pay the alleged back taxes immediately. Another scam involved the impersonation of U.S. Citizen and Immigration Services (USCIS) officers, and defrauded U.S. residents by misleading them into believing that they would be deported unless they immediately paid a fine for alleged problems with their USCIS paperwork.<sup>153</sup>

This complex fraud scheme resulted in hundreds of millions of dollars in victim losses. Over 15,000 known victims have incurred losses attributable to scam calls, and

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149 N.D. Ohio Plea Agr. filed Apr. 4, 2017.

150 *Id.*

151 N.D. Ohio Judgment filed Aug. 23, 2017.

152 S.D. Tex. Crim. Docket filed Aug. 31, 2016; S.D. Tex. Superseding Indict. filed Oct. 19, 2016.

153 S.D. Tex. Superseding Indict. filed Oct. 19, 2016.

upwards of 50,000 individuals have had their identities misappropriated based on the unauthorized use of their PII to register general purpose reloadable cards.<sup>154</sup>

A number of defendants were arrested in various locations within the United States. Between April 1, 2017 and September 30, 2017, 17 of the defendants pled guilty to the conspiracy. They are currently awaiting sentencing.<sup>155</sup> Additional legal actions are anticipated for the remaining defendants.

## **Corrupt Interference**

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

### **Russian Man Sentenced in Stolen-Identity Refund Fraud Scheme**

On June 9, 2017, in the Southern District of Florida, Russian citizen<sup>156</sup> Alexey Petrov was sentenced for access device fraud and aggravated identity theft<sup>157</sup> for his role in a sophisticated, large-scale stolen-identity refund fraud (SIRF) scheme.<sup>158</sup> Petrov was initially charged for these and other offenses and was arrested by TIGTA agents in November 2016.<sup>159</sup> He pled guilty in February 2017.<sup>160</sup>

According to the court documents, in early 2015, several Federal agencies began investigating a large-scale SIRF scheme. Agencies involved in investigating this complex scheme included TIGTA, IRS-CI, the Federal Bureau of Investigation (FBI), and the Federal Deposit Insurance Corporation Office of Inspector General (FDIC OIG).<sup>161</sup> During the investigation, agents discovered that cybercriminals had accessed an IRS computer database, stolen genuine taxpayers' PII, and filed false and fraudulent tax returns using the stolen taxpayer information, thus causing the IRS to issue refunds to individuals who were not entitled to receive them.<sup>162</sup>

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154 *Id.*

155 S.D. Tex. Crim. Docket as of Sep. 26, 2017.

156 S.D. Fla. Crim. Compl. filed Nov. 17, 2016.

157 S.D. Fla. Judgment filed June 12, 2017.

158 S.D. Fla. Crim. Compl. filed Nov. 17, 2016.

159 S.D. Fla. Crim. Compl. filed Nov. 17, 2016; S.D. Fla. Executed Arrest Warrant filed Dec. 6, 2016; S.D. Fla. Crim. Docket filed Dec. 29, 2016.

160 S.D. Fla. Plea Agr. filed Feb. 28, 2017.

161 S.D. Fla. Crim. Compl. filed Nov. 17, 2016.

162 S.D. Fla. Plea Agr. filed Feb. 28, 2017.

The criminal complaint charged that Petrov, a resident of the Miami, Florida, area, knowingly transferred, possessed, and used the means of identification of another, transferred a false identification document, used a counterfeit access device, and willfully conspired with others to conduct financial transactions involving the proceeds of specific unlawful activities, in connection with the filing of fraudulent tax returns.<sup>163</sup>

Petrov was born in Russia and is a Russian citizen. He entered the United States on a short-term, non-immigrant visa that expired on or about September 28, 2005. Petrov resides in the Miami area with a Russian female who also entered the United States on a short-term, non-immigrant visa that expired in 2010.<sup>164</sup>

Petrov was identified by two coconspirators as the person who recruited them and directed them to create bank accounts using the names of individuals from Russia, Kazakhstan, and other Eastern European and Central Asian countries. At Petrov's direction, coconspirators Sergey Kovalenko and Laziz Eraliyev used these bank accounts to receive and further transfer fraudulently obtained tax refund money.<sup>165</sup>

As part of the scheme, Petrov created and provided counterfeit driver's licenses using the names of real individuals to Kovalenko and Eraliyev to allow them to open bank accounts. Petrov then directed cybercriminals to send the fraudulently obtained tax refunds to various accounts opened in these names.<sup>166</sup>

Many of the individuals whose names were used had previously come to the United States on short-term, non-immigrant work visas. At Petrov's direction, Kovalenko paid individuals who were visiting the United States on this type of visa for their bank account debit cards and online banking information and then provided the information to Petrov. One such individual, who was lawfully present in the United States during the summer of 2008, had entered the country on the same flight from Moscow, Russia, as Kovalenko. Kovalenko subsequently used a fake driver's license in the individual's name to rent an apartment and open bank accounts to receive and further transfer money at Petrov's direction.<sup>167</sup>

Kovalenko is a Russian citizen, and Eraliyev is a Kazakhstan citizen. Both entered the United States on short-term, non-immigrant visas and lived in or around Virginia

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163 S.D. Fla. Crim. Compl. filed Nov. 17, 2016.

164 *Id.*

165 S.D. Fla. Plea Agr. filed Feb. 28, 2017.

166 *Id.*

167 S.D. Fla. Crim. Compl. filed Nov. 17, 2016.

Beach, Virginia. Kovalenko first met Petrov in Miami around 2012. Petrov offered to provide Kovalenko with a fake driver's license if he would send money to Russia on Petrov's behalf, which Kovalenko subsequently did. Petrov paid Kovalenko approximately \$40 to \$50 each time he sent funds to Russia.<sup>168</sup>

In or around March 2015, Kovalenko and Eraliyev traveled to Miami to attend an electronic music festival. At the event, Petrov met with Eraliyev and said that if he would like to earn extra money, he could do the same thing Kovalenko was doing. Petrov provided Eraliyev with a fake driver's license that bore Eraliyev's picture, but listed the PII of another individual born in Kazakhstan. Eraliyev subsequently used the fake license to open bank accounts at Petrov's direction and would later withdraw the funds.<sup>169</sup>

Kovalenko and Eraliyev were arrested in March 2016 for offenses related to the refund fraud scheme.<sup>170</sup> Kovalenko pled guilty to bank fraud in May 2016, and Eraliyev pled guilty to theft of Government property in June 2016.<sup>171</sup>

After Petrov was arrested on November 16, 2016, agents conducting a search of his residence discovered a photocopy of a Social Security card, work authorization permit, and Florida driver's license, all belonging to a Russian citizen, as well as debit cards issued to other individuals. Agents also found evidence of Petrov's activities on several online cybercrime forums, where he offered to partner with cybercriminals engaged in stolen identify refund fraud and other crimes. A review of bank accounts controlled by Petrov revealed that he had received over \$183,000 in deposits from 2014 to 2016; however, he has not filed an income tax return since 2011.<sup>172</sup>

Petrov was sentenced to 57 months' imprisonment, plus three years of supervised release.<sup>173</sup> He was further ordered to pay restitution in the amount of \$183,000.<sup>174</sup> Upon the completion of his term of imprisonment, Petrov will be surrendered to the custody of the U.S. Immigration and Customs Enforcement for removal proceedings.<sup>175</sup>

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168 *Id.*

169 *Id.*

170 *Id.*

171 S.D. Fla. Plea Agr. filed Feb. 28, 2017.

172 *Id.*

173 S.D. Fla. Judgment filed June 12, 2017.

174 S.D. Fla. Amended Judgment filed Aug. 11, 2017.

175 S.D. Fla. Judgment filed June 12, 2017.

## Washington Man Indicted and Arrested in a Scheme to Obstruct the IRS

On July 18, 2017, in the District of Oregon, Portland Division, Theron J. Marrs was indicted for obstructing the due administration of the Internal Revenue laws, evasion of payment of taxes, and filing false Federal tax returns.<sup>176</sup> Marrs was subsequently arrested for the offenses on July 20, 2017, in Camas, Washington.<sup>177</sup>

According to the court documents, Marrs was a resident of Bend, Oregon, from 2005 through July 2015 and has been a resident of Camas, Washington, since August 2015. Marrs was involved in several businesses, including debt elimination, multilevel marketing, and tax advice. He owned and operated the website *livingfreeandclear.com*, through which he sold and promoted abusive tax avoidance schemes.<sup>178</sup>

Prior to 2010, Marrs had a history of timely filing his Federal income tax returns. However, from about February 2011 until the date of his indictment, Marrs corruptly endeavored to obstruct and impede the due administration of the Internal Revenue laws and willfully attempted to evade and defeat the payment of Federal income taxes through a variety of acts.<sup>179</sup>

As part of his scheme, Marrs attempted to evade the payment of more than \$265,000 due and owing for taxes by concealing and attempting to conceal income, assets, and financial transactions from the IRS using businesses and nominee entities. In furtherance of this scheme, and as part of his efforts to impede and obstruct the IRS, Marrs sent IRS employees false payment instruments, including fraudulent bills of exchange, bonds, money orders, and checks, in an attempt to mislead the IRS into accepting such items as payment for his Federal income tax due.<sup>180</sup>

Additionally, Marrs sent IRS employees threatening and harassing correspondence, filed bogus and retaliatory lawsuits against IRS employees, and attempted to file a criminal complaint against IRS employees. He also filed frivolous documents with the U.S. District Court for the District of Oregon and filed a false Uniform Commercial Code lien. For CYs 2005, 2006, 2007, 2009, and 2010, Marrs willfully filed, under penalty of perjury, false individual Federal tax returns with the IRS, in which he claimed minimal income for each of these years, ranging from \$0 to approximately

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<sup>176</sup> D. Or. Indict. filed July 18, 2017.

<sup>177</sup> D. Or. Executed Arrest Warrant filed July 24, 2017.

<sup>178</sup> D. Or. Indict. filed July 18, 2017.

<sup>179</sup> *Id.*

<sup>180</sup> *Id.*

\$5,515, while at the same time claiming tax refunds due to him in the total amount of approximately \$122,348.<sup>181</sup> Additional legal actions are anticipated.

### **Tax Preparer Outreach**

In addition to promoting employee integrity, TIGTA is also committed to educating tax preparers on integrity. Tax preparers play an important role in ensuring the integrity of tax administration because of their frequent contact with the IRS. During this semiannual reporting period, TIGTA special agents provided 33 integrity presentations to tax preparers at various locations nationwide, including at each of the IRS's Nationwide Tax Forums. It is estimated that more than 2,000 tax preparers attended the presentations at the Tax Forums held at National Harbor, Maryland, in August 2017. The focus of these presentations was, "TIGTA: Helping You and Your Clients Steer Clear of the Latest Frauds and Swindles."

The presentations generally informed tax preparers of TIGTA's role in protecting the integrity of tax administration, the differences between the jurisdictions of TIGTA and the IRS, how to identify various forms of preparer misconduct, and common IRS impersonation scams.

These outreach efforts are important due to the influence that tax preparers have on tax compliance or noncompliance. Tax preparers can either assist in the enforcement of tax administration, by ensuring that taxpayers comply with Internal Revenue laws, or they can impede it.

The following cases represent OI's efforts to protect tax administration from unscrupulous tax preparers during this six-month reporting period:

### **California Tax Preparer Sentenced to More Than 14 Years in Prison for Fraudulent Schemes**

On July 12, 2017, in the Southern District of California, tax preparer Cynthia Lozano was sentenced for her role in two complex fraud schemes, primarily involving identity theft and false Federal tax returns.<sup>182</sup>

According to the court documents, Lozano was a tax preparer who conducted business at "CLozano Income Tax," located in Spring Valley, California. Lozano

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181 *Id.*

182 S.D. Cal. Judgment 3:13-cr-01354-AJB filed July 20, 2017; S.D. Cal. Judgment 3:16-cr-01332-AJB filed July 20, 2017.

obtained a Preparer Tax Identification Number (PTIN)<sup>183</sup> and an Electronic Filer Identification Number from the IRS in 2007 and was working as a tax preparer at all times relevant to the initial indictment against her.<sup>184</sup>

The indictment alleged that from about January 2010 until about January 2013, Lozano knowingly devised a scheme to defraud and to obtain money by means of materially false and fraudulent representations.<sup>185</sup> Specifically, Lozano used the names and SSNs of other persons, without authority or permission, to create fraudulent Federal tax returns. Lozano filed these returns, which falsely represented the taxpayers' income, dependents, and business losses, with the IRS in order to claim tax refunds and Earned Income Credits (EIC). She then received the tax refunds from the IRS via mail or directed a portion of the claimed refund to be deposited into bank accounts that she controlled. Lozano subsequently used the fraud proceeds to purchase approximately 20 properties in and around Phoenix, Arizona.<sup>186</sup>

In the course of this scheme, Lozano fraudulently filed over 400<sup>187</sup> returns in the names of more than 200 taxpayers and defrauded the IRS of over \$1 million. In April 2013, Lozano was charged with false claims, wire fraud, mail fraud, and aggravated identity theft in a 33-count indictment.<sup>188</sup> She pled guilty in February 2015<sup>189</sup> to one count each of wire fraud and aggravated identity theft.

While on pretrial release awaiting her sentencing,<sup>190</sup> which was scheduled for July 2015,<sup>191</sup> agents discovered that Lozano was involved in yet another fraud scheme. Lozano had filed additional Federal tax returns with fraudulent claims similar to those in her previous scheme.<sup>192</sup> Based on the new allegations, Lozano's bond was revoked, and she was remanded to custody on July 10, 2015.<sup>193</sup>

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183 A number the IRS assigns to an individual who prepares or assists in the preparation of Federal tax returns for compensation.

184 S.D. Cal. Indict. filed Apr. 12, 2013.

185 *Id.*

186 *Id.*

187 S.D. Cal. Gov't. Motion to Vacate Plea Agr. filed Oct. 23, 2015.

188 S.D. Cal. Indict. filed Apr. 12, 2013.

189 S.D. Cal. Crim. Docket 3:13-cr-01354-AJB as of July 27, 2017.

190 S.D. Cal. Superseding Indict. 3:16-cr-01332-AJB filed July 22, 2016.

191 S.D. Cal. Crim. Docket 3:13-cr-01354-AJB as of July 27, 2017.

192 S.D. Cal. Govt. Motion to Vacate Plea Agr. filed Oct. 23, 2015.

193 S.D. Cal. Crim. Docket 3:13-cr-01354-AJB as of July 27, 2017.

Subsequently, in July 2016, Lozano and two coconspirators, Gerardo Baker and David Hernandez, were charged in a 51-count superseding indictment for their participation in the second scheme. The superseding indictment charged that from about April 12, 2013 to about July 7, 2015, Lozano, Baker, and Hernandez conspired with each other to submit false claims and to commit wire fraud, mail fraud, aggravated identity theft, and theft of public property.<sup>194</sup>

In furtherance of the conspiracy, Lozano falsely identified herself as “Amelia Barajas” in Landlord Certification forms submitted to the U.S. Department of Housing and Urban Development (HUD), in order to enter into a contract as a “Section 8” property owner. Lozano would require potential tenants for her Arizona properties to provide her with copies of their Social Security cards, as well as those of their children, as part of her rental application. Lozano then used the identities of these actual and prospective Section 8 tenants without authorization in order to file false tax returns and to fraudulently obtain tax refunds, EIC payments, and public housing rent supplements from HUD. Lozano directed the IRS to deposit the fraudulent refunds into new bank accounts, which she opened with the assistance of coconspirators Baker and Hernandez. In this scheme, Lozano fraudulently filed returns in the names of over 60 taxpayers and defrauded the U.S. Government out of more than \$150,000 in tax refunds and EIC payments.<sup>195</sup>

Since the terms of her February 2015 plea agreement had been violated by Lozano’s continued criminal activity, the Government withdrew from the plea agreement,<sup>196</sup> and Lozano pled guilty in August 2016 to the remaining 31 counts of the initial indictment.<sup>197</sup> In November 2016, she pled guilty to all 51 counts of the superseding indictment.<sup>198</sup>

Hernandez and Baker pled guilty to their roles in the conspiracy in September 2016 and October 2016, respectively.<sup>199</sup> Both were sentenced in December 2016. Hernandez was sentenced to time served and three years of supervised release, and he was ordered to pay \$7,200 in restitution to the IRS.<sup>200</sup> Baker was also sentenced to

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194 S.D. Cal. Superseding Indict. 3:16-cr-01332-AJB filed July 22, 2016.

195 *Id.*

196 S.D. Cal. Govt. Motion to Vacate Plea Agr. filed Oct. 23, 2015.

197 S.D. Cal. Crim. Docket 3:13-cr-01354-AJB as of July 27, 2017.

198 S.D. Cal. Crim. Docket 3:16-cr-01332-AJB as of July 27, 2017.

199 *Id.*

200 S.D. Cal. Amended Judgment 3:16-cr-01332-AJB filed Jan 23, 2017.

time served and three years of supervised release, and he was ordered to pay \$17,500 in restitution to the IRS.<sup>201</sup>

Lozano received two separate sentences for her offenses on July 12, 2017. For the first scheme, she was sentenced to 81 months in prison and three years of supervised release, and ordered to pay the IRS \$1,250,406 in restitution.<sup>202</sup> For the second scheme, Lozano was sentenced to 94 months in prison and three years of supervised release, and was ordered to pay \$121,533 in restitution to the IRS and \$107,194 to HUD.<sup>203</sup> Lozano is to serve the two sentences consecutively, for a total of 175 months in prison. She is further forbidden from preparing tax returns other than her own.<sup>204</sup> A status hearing is scheduled for October 4, 2017, regarding the 20 properties Lozano purchased with the fraudulent proceeds from the first scheme.<sup>205</sup>

The investigations of Lozano, Hernandez, and Baker were worked jointly by agents of TIGTA and IRS-CI.

### **California Tax Preparer Sentenced in a Conspiracy to Defraud the Government and Retaliate Against Federal Employees**

On April 26, 2017, in the Eastern District of California, Teresa Marty was sentenced for conspiracy to commit false claims against the United States and conspiracy to defraud the United States.<sup>206</sup> Marty was initially indicted, along with coconspirators Rebecca Bandera-Marty and Pamela Ann Harris, in June 2013 for filing false claims with the IRS.<sup>207</sup> Two superseding indictments were subsequently filed in August 2013 and December 2015 adding coconspirators Charles Tingler and Victoria Tingler, as well as additional charges related to retaliation against Federal employees and unauthorized disclosure and use of an SSN.<sup>208</sup> Marty pled guilty in August 2016

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201 S.D. Cal. Amended Judgment 3:16-cr-01332-AJB filed Jan. 9, 2017.

202 S.D. Cal. Judgment 3:13-cr-01354-AJB filed July 20, 2017.

203 S.D. Cal. Judgment 3:16-cr-01332-AJB filed July 20, 2017.

204 S.D. Cal. Judgment 3:13-cr-01354-AJB filed July 20, 2017; S.D. Cal. Judgment 3:16-cr-01332-AJB filed July 20, 2017.

205 S.D. Cal. Crim. Docket 3:13-cr-01354-AJB as of Sep. 26, 2017.

206 E.D. Cal. Judgment filed Apr. 28, 2017.

207 E.D. Cal. Indict. filed June 20, 2013.

208 E.D. Cal. Superseding Indict. filed Aug. 15, 2013; E.D. Cal. Second Superseding Indict. filed Dec. 3, 2015.

to conspiracy to defraud the United States and to retaliate against Government officials.<sup>209</sup>

According to the court documents, Marty was an IRS enrolled agent and California licensed tax preparer, as well as the owner/operator of Advanced Financial Services in Placerville, California. Marty, along with Harris and Bandera-Marty, filed at least 250 false income tax returns on behalf of individuals residing in 26 different States, fraudulently claiming more than \$60 million in Federal income tax refunds. The returns falsely reported on IRS Forms 1099-OID, *Original Issue Discount*, that the clients' total outstanding debt was interest income that had been withheld by the IRS, rather than monies paid to the clients, thus purportedly entitling the clients to tax refunds in the amount of the monies paid. Based on the false returns filed, the IRS erroneously issued over 40 tax refunds totaling approximately \$9 million.<sup>210</sup>

Charles and Victoria Tingler, also of Placerville, California, were clients of Marty's tax preparation business. They too, along with Marty and other individuals, knowingly filed a false tax return with the IRS, claiming a refund of \$358,415.<sup>211</sup>

When the IRS assessed Marty with a tax due and owing related to the fraudulent refunds in the approximate amount of \$388,735, and the Tingles with an amount of approximately \$363,843,<sup>212</sup> Marty, Harris, and Charles Tingler intentionally and knowingly conspired to impede and obstruct the lawful functions of the IRS. On multiple dates, both Charles Tingler and Victoria Tingler sent correspondence to the IRS revenue officer assigned to the collection of their debt, alleging that the revenue officer owed them \$6 million and demanding payment of such. In furtherance of the conspiracy, Marty hired a collection agency to collect the false debt allegedly owed. Harris subsequently provided the collection agency with the home address, SSN, and telephone number of the revenue officer.<sup>213</sup>

Marty, Charles Tingler, and Victoria Tingler also filed retaliatory liens in public records against the properties of multiple Federal employees on account of the performance of their official duties involving the collection and litigation of their respective cases, knowing that the liens contained materially fraudulent representations. The targeted officials included IRS employees and Department

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209 E.D. Cal. Plea Agr. filed Aug. 31, 2016.

210 E.D. Cal. Plea Agr. filed Aug. 31, 2016.

211 E.D. Cal. Second Superseding Indict. filed Dec. 3, 2015.

212 E.D. Cal. Plea Agr. filed Aug. 31, 2016.

213 E.D. Cal. Second Superseding Indict. filed Dec. 3, 2015.

of Justice attorneys. The liens, filed with the Office of the California Secretary of State, falsely claimed encumbrances ranging from at least \$500,000 to \$84 million.<sup>214</sup> Additionally, in filing such false liens, Marty and the Tinglers used and disclosed publicly the SSNs, dates of birth, and home addresses of the targeted Federal employees.<sup>215</sup>

Harris, Bandera-Marty, Charles Tingler, and Victoria Tingler all entered guilty pleas for their respective roles in the conspiracy. Bandera-Marty and Harris were each sentenced in February 2017. Bandera-Marty was sentenced to 36 months' probation, which includes 12 months of home detention and monitoring, and was ordered to complete 100 hours of community service. Harris was sentenced to 60 months' probation.<sup>216</sup> On May 31, 2017, Charles and Victoria Tingler were each sentenced to time served plus two years of supervised release, six months of which will be monitored with location monitoring technology. During their supervised release, each must complete 50 hours of community service and cooperate with the IRS in the determination and payment of any taxes owed.<sup>217</sup>

Marty was sentenced to 10 years in prison, followed by two years of supervised release. She was further ordered to pay restitution to the IRS totaling more than \$9.5 million.<sup>218</sup> Harris and Bandera-Marty are jointly and severally liable with Marty for more than \$6.1 million of the restitution amount.<sup>219</sup> The Tinglers are each jointly and severally liable for \$340,690.29 in restitution.<sup>220</sup>

### **California Tax Return Preparer Sentenced for Defrauding Clients**

On June 12, 2017, in the Central District of California, Hollywood Hills resident Michael J. Calalang Cabuhat was sentenced for wire fraud and subscribing to file a false tax return.<sup>221</sup> Cabuhat was arrested by special agents from TIGTA and IRS-CI in April 2016<sup>222</sup> and pled guilty to these offenses in June 2016.<sup>223</sup>

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214 E.D. Cal. Second Superseding Indict. filed Dec. 3, 2015.

215 E.D. Cal. Plea Agr. filed Aug. 31, 2016.

216 E.D. Cal. Crim. Docket as of May 12, 2017.

217 E.D. Cal. Judgment filed June 9, 2017; E.D. Cal. Judgment filed June 9, 2017.

218 E.D. Cal. Judgment filed Apr. 28, 2017.

219 E.D. Cal. Restitution Order filed May 8, 2017.

220 E.D. Cal. Judgment filed June 9, 2017; E.D. Cal. Judgment filed June 9, 2017.

221 C.D. Cal. Judgment filed June 12, 2017.

222 C.D. Cal. Docket filed June 16, 2016.

223 C.D. Cal. Plea Agr. filed June 15, 2016.

According to the court documents, Cabuhat was the Executive Vice President and 50 percent owner of VisionQwest Resource Group, Inc., which operated VisionQwest Accountancy Group (VAG), located in Glendale, California, and later also did business as Icon Tax Group. From 2010 to April 2016, Cabuhat knowingly devised and participated in a scheme to defraud VAG’s clients and obtain money by means of false and fraudulent representations.<sup>224</sup>

In furtherance of the scheme, Cabuhat defrauded customers of his tax preparation business in at least two ways. In some instances, Cabuhat would show a small refund on the copy of the tax return that he had prepared for his client, whereas he would claim a larger refund on the return that Cabuhat actually filed with the IRS. Without the client’s knowledge, Cabuhat would attach a form to the filed tax return directing the larger refund into a bank account he controlled.<sup>225</sup>

In other cases, Cabuhat would falsely show a tax liability due on the client’s copy of the tax return, whereas he would claim a refund on the return that he would file with the IRS. In these instances, Cabuhat would tell the client-taxpayer to make the “tax payment” directly to him so he could send the payment to the IRS. In fact, Cabuhat would keep the “tax payment” made by the client and direct the IRS to deposit the refund that Cabuhat claimed on the filed tax return into a bank account that he controlled.<sup>226</sup>

Between 2010 and 2015, Cabuhat allegedly used this scheme to obtain or attempt to obtain more than \$1.2 million in tax refunds that should have gone to 144 clients.<sup>227</sup>

Cabuhat claimed to be an enrolled agent; however, the investigation confirmed that he is not, and has never been, an enrolled agent. As defined by the IRS, an enrolled agent is a person who has earned the privilege of representing taxpayers before the IRS, either by passing a three-part comprehensive test covering individual and business tax returns or as a result of experience as a former IRS employee. This credential is the highest that the IRS awards. Cabuhat also stated that he was a licensed Certified Public Accountant (CPA) in the Philippines, but he does not hold a CPA license issued in the United States.<sup>228</sup>

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224 C.D. Cal. Info. filed June 15, 2016.

225 C.D. Cal. Crim. Compl. filed April 5, 2016.

226 *Id.*

227 *Id.*

228 *Id.*

In addition to the tax refund scheme, in September 2014 Cabuhat structured cash deposits to avoid Federal bank reporting requirements. Specifically, Cabuhat made three separate cash deposits of \$9,900, totaling \$29,700, over seven days. On the day after these structured transactions were completed, Cabuhat wrote a \$24,500 check to purchase a Ferrari.<sup>229</sup>

As part of his plea agreement, Cabuhat agreed to forfeit his 2001 Ferrari 360 Spider vehicle. Cabuhat admitted that he received at least \$957,822 in unreported income and agreed to cooperate with the IRS to determine his tax liability and to pay additional taxes, penalties, and interest, including fraud penalties.<sup>230</sup>

Cabuhat was sentenced to 46 months in prison, followed by three years of supervised release. He was ordered to truthfully file and pay taxes owed for TYs 2010 to 2015 and is forbidden from engaging in any aspect of preparing Federal or State tax returns other than for himself and his legal spouse, as well as from owning, operating, or managing a tax preparation business. Additionally, Cabuhat was ordered to pay restitution in the total amount of \$1,496,416.65.<sup>231</sup> The investigation was conducted jointly by agents of TIGTA and IRS-CI.<sup>232</sup>

### **North Carolina Tax Preparer Sentenced for Corruptly Endeavoring to Impede the IRS and Tax Evasion**

On May 9, 2017, in the Middle District of North Carolina, tax preparer Henti Lucian Baird was sentenced for corruptly endeavoring to impede the IRS and for tax evasion.<sup>233</sup> Baird pled guilty to the offenses in October 2016.<sup>234</sup>

According to the court documents, Baird, a resident of Greensboro, North Carolina, owned and operated HL Baird Tax Consultants. For nearly 40 years, Baird had worked extensively with the IRS, serving for 12 years as a revenue officer for the Collection Division of the IRS in the 1970s and 1980s.<sup>235</sup> The business advertised that it provided various tax services, including tax preparation and representing clients in matters

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229 *Id.*

230 C.D. Cal. Plea Agr. filed June 15, 2016.

231 C.D. Cal. Judgment filed June 12, 2017.

232 C.D. Cal. Crim. Compl. filed April 5, 2016.

233 M.D.N.C. Judgment filed May 24, 2017.

234 M.D.N.C. Crim. Docket filed Sept. 27, 2016; M.D.N.C. Plea Agr. filed Sept. 29, 2016.

235 M.D.N.C. Factual Basis filed Sept. 29, 2016.

before the IRS,<sup>236</sup> and that it specialized in IRS problems.<sup>237</sup> From July 1998 until April 2009, the IRS authorized Baird as an enrolled agent, which allowed him to represent taxpayers before the IRS and required him to complete continuing education courses.<sup>238</sup>

From about January 2008 through about October 2013, Baird corruptly endeavored to obstruct and impede the due administration of the Internal Revenue laws in a variety of ways, including: filing Forms 2848, *Power of Attorney and Declaration of Representative*, on behalf of taxpayers after the IRS had terminated his enrolled agent status; using another person's name and SSN to apply for and use a PTIN; and hiding his income and assets to evade the payment of individual taxes owed.<sup>239</sup>

IRS Form 2848 authorizes an individual who is eligible to represent a taxpayer before the IRS. The IRS revoked Baird's status as an enrolled agent in April 2009, yet after the date of revocation, Baird subsequently signed and filed at least 120 Forms 2848, on which he declared, under penalties of perjury, that he was an enrolled agent.<sup>240</sup> Additionally, in 2011 and 2012, Baird filed a renewal application for a PTIN using the SSN and name of his stepson without his knowledge. Baird then prepared and filed over 900 tax returns for clients using the PTIN.<sup>241</sup>

Despite Baird's knowledge of his tax obligations, he failed to pay the taxes that he self-assessed and, as of September 2016, he owed income taxes of approximately \$477,028 for TYs 1998 through 2013. The IRS has attempted several times to levy Baird's bank accounts, but those attempts have resulted in minimal recovery.<sup>242</sup>

Baird responded to the liens and levies by using his knowledge of the IRS collection process to delay and impede the IRS's efforts. Baird willfully attempted to evade and defeat the payment of an income tax that he owed by engaging in numerous ploys, including: telling the investigating revenue officer that he did not have an account at a specific bank, when in reality he controlled multiple accounts at this bank; sending checks for two estimated tax payments to the IRS for \$18,000 each, both of which

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236 M.D.N.C. Info. filed Sept. 27, 2016.

237 M.D.N.C. Factual Basis filed Sept. 29, 2016.

238 *Id.*

239 M.D.N.C. Info. filed Sept. 27, 2016.

240 M.D.N.C. Factual Basis filed Sept. 29, 2016.

241 M.D.N.C. Factual Basis filed Sept. 29, 2016.

242 M.D.N.C. Info. filed Sept. 27, 2016.

were returned for insufficient funds; and making substantial cash deposits into various bank accounts in the names of his adult children.<sup>243</sup>

Baird was sentenced to 43 months in prison followed by one year of supervised release. He was further ordered to pay \$573,422.74 in restitution to the IRS.<sup>244</sup>

### **Florida Tax Preparer Sentenced for Theft of Treasury Checks and Tax Refunds**

On July 27, 2017, in the Southern District of Florida, Johnathan Jameel Ford was sentenced for the theft of Government money and aggravated identity theft.<sup>245</sup> Ford was indicted for the offenses on January 27, 2017,<sup>246</sup> and was arrested by agents of TIGTA and IRS-CI on January 31, 2017. Ford entered a guilty plea on May 3, 2017.<sup>247</sup>

According to the court documents, Ford knowingly and willfully received, concealed, and retained money belonging to the Department of the Treasury, to wit: income tax refunds and Treasury checks. He did so with the intent to convert the funds to his own use, knowing the refunds and checks were stolen. Additionally, in carrying out the thefts, Ford knowingly possessed and used, without lawful authority, the means of identification of others.<sup>248</sup>

Specifically, from August 2013 through July 2015, Ford obtained fraudulent income tax refunds and deposited the proceeds into bank accounts that he controlled. He also acquired Treasury checks that did not belong to him, altered the stolen checks, and converted them to his own use by depositing them into bank accounts that he controlled.<sup>249</sup>

In total, Ford illegally obtained \$136,233 through the fraudulent tax refunds and stolen and altered Treasury checks. The theft included 20 Treasury checks issued to individuals or businesses other than Ford and refunds from five fraudulent income tax returns filed in the names of others.<sup>250</sup>

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243 M.D.N.C. Factual Basis filed Sept. 29, 2016; M.D.N.C. Info. filed Sept. 27, 2016.

244 M.D.N.C. Judgment filed May 24, 2017.

245 S.D. Fla. Judgment filed July 31, 2017.

246 S.D. Fla. Indict. filed Jan. 30, 2017.

247 S.D. Fla. Crim. Docket as of Aug. 17, 2017.

248 S.D. Fla. Indict. filed Jan. 30, 2017.

249 S.D. Fla. Factual Proffer filed May 4, 2017.

250 *Id.*

Ford deposited stolen and altered Treasury checks into at least five Navy Federal Credit Union (NFCU) bank accounts that he had opened in the names of other people, but that he controlled. Ford then retained the stolen funds for himself by writing checks to himself or to his tax preparation business, Tax Hero LLC.<sup>251</sup>

As one example, a Treasury check in the amount of \$5,040.99 was issued to an individual or entity other than Ford. The check was stolen and altered to be made payable to “J.B.” Ford forged J.B.’s name and signature to endorse the check and deposit it into an NFCU account in J.B.’s name. On the same day, Ford wrote checks to himself and to his tax preparation business, Tax Hero, LLC, out of this NFCU account, again forging J.B.’s name and signature on the checks. J.B. said he/she did not open the NFCU account, did not deposit the Treasury check into the account, did not endorse the Treasury check, and did not write checks out of the NFCU account. Additionally, J.B. said that he/she does not know Ford and did not authorize Ford or anyone else to possess his/her personal information or to use or sign his/her name.<sup>252</sup>

In another instance, a fraudulent income tax return was filed with the IRS using the name, date of birth, and SSN of a person other than Ford. The return specified that the tax refund be deposited into a bank account that was in Ford’s name and was controlled by Ford. The taxpayer stated that he/she did not authorize Ford or anyone else to file the tax return using his/her name, date of birth, or SSN.<sup>253</sup>

Ford was sentenced to 32 months’ imprisonment, followed by three years of supervised release. A restitution hearing is scheduled for October 27, 2017.<sup>254</sup>

## **Forensic and Digital Science Lab**

In conjunction with TIGTA’s investigative capabilities and unrelenting efforts to resolve IRS impersonation scams and other schemes impacting Federal tax administration, the TIGTA Forensic and Digital Science Laboratory (FDSL) has continued to expand the scope of its accredited operations and has also updated its facilities and equipment.

On May 11, 2017, FDSL received confirmation from the American Society of Crime Laboratory Directors-Laboratory Accreditation Board that the scope of TIGTA FDSL’s accredited operations was extended to add the Digital and Multimedia Evidence

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251 *Id.*

252 *Id.*

253 *Id.*

254 S.D. Fla. Judgment filed July 31, 2017.

Discipline-Computer Forensics category of testing to its list of accredited services. This was a monumental accomplishment, and TIGTA's lab now serves as a model for other agencies.

Additionally, its facilities and equipment were updated to enhance FDSL's operations. The FDSL recently acquired a new photography system setup called the DCS<sup>®</sup> 5. The DCS 5 is a camera system that allows for the latent prints recovered on all types of evidence to be captured in the clearest and most effective manner. The DCS 5 has the capability of capturing latent prints that are developed but cannot be seen with the naked eye.

The DCS 5 also has the ability to visualize latent prints under the infrared region. Without this new capability, TIGTA fingerprint specialists would not be able to obtain the best print results on the evidence they process.

TIGTA special agents have investigated many IRS impersonation scam allegations and have forwarded evidence to the FDSL latent team for assistance in identifying potential suspects. One significant case involved the processing of 102 exhibits that yielded 99 latent prints. Examiners were able to identify one individual known to the case agent and four additional previously unknown suspects through the use of the FBI's Next Generation Identification (NGI) system. The NGI system searches criminal and civilian fingerprint files in the United States. In another impersonation case, the subject used nine different aliases to scam victims out of thousands of dollars. The fingerprint specialists examined 118 exhibits that yielded 276 latent prints of value and identified one individual on 76 separate items.

The FDSL latent print section has also seen an influx in the past year of criminal cases involving the theft of U.S. Treasury checks. In the month of November 2016 alone, the laboratory processed over 300 stolen U.S. Treasury checks for fingerprints and developed a total of approximately 291 latent prints suitable for identification. In one theft case, examiners identified or confirmed eight suspects based on fingerprints. In another case involving the theft of a \$4 million U.S. Treasury check, examiners developed 20 latent prints of value and identified two suspects.

In FY 2017, the FDSL Digital Forensic Support (DFS) section received 261 requests for examinations of digital evidence in support of OI investigations and closed more than 213 of those examinations. In addition to media analyses, e-mail and log file analyses in an increasing number of examinations have centered on the analysis of mobile devices such as tablet computers, cellphones, and other portable computing devices. Analysis of these types of devices has provided significant information in impersonation cases. In addition, DFS provided assistance in the execution of more than 11 nationwide search and arrest warrants, in the course of which mobile devices

were seized and examined regarding alleged criminal activity, including theft and financial threats. During the execution of one search warrant, DFS special agents seized more than 55 separate devices containing potential digital evidence.



# Advancing Oversight of America's Tax System

TIGTA's Office of Inspections and Evaluations (I&E) identifies opportunities for improvement in IRS and TIGTA programs by performing inspections and evaluations that report timely, useful, and reliable information to decisionmakers and stakeholders.

This function has two primary product lines: inspections and evaluations.

Inspections are intended to:

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

Evaluations are intended to:

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

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

## **The Internal Revenue Service Could Reduce Safety, Fire, and Electrical Hazards at Selected Facilities**

The IRS is required by the Occupational Safety and Health Act and other guidance that governs operations and management of Federal buildings and facilities to provide safe and healthful places and conditions of employment. The overall objective of this inspection was to determine whether selected IRS facilities were in compliance with those portions of the Occupational Safety and Health Act designed to prevent hazards that could cause a slip, trip, or fall.

TIGTA conducted unannounced safety inspections at three IRS facilities and generally found the facilities to be compliant with standards designed to prevent slip, trip, fall, egress, exit, electrical, and fire hazards. However, TIGTA physically observed

instances of such hazards at all three facilities. These included, but were not limited to, obstacles in aisles, passageways, egress, or exits; daisy-chained power strips; exposed wiring; and obstructed fire extinguishers. Additionally, TIGTA observed personally owned appliances being used in the workplace for which IRS staff could not provide documentation showing that the items had been properly inspected and approved for use.

TIGTA made no recommendations. IRS management did not send a formal response but agreed to the facts of the report.

**Reference No. 2017-IE-R005**

### **The Internal Revenue Service Has Not Used Critical Position Pay Authority to Hire Employees**

The IRS has used its own Streamlined Critical Pay (SCP) authority since 1998 to fill positions, primarily those related to information technology, that it had designated as critical. This authority expired in September 2013. Although the IRS has several employees still under the SCP, all are required to be off the IRS rolls by September 30, 2017. The objective of this review was to evaluate the IRS's efforts to use the general Federal Governmentwide Critical Position Pay Authority (CPPA) to fill critical technical, professional, or administrative positions, and to determine the extent to which the CPPA is used by other Federal agencies.

The IRS has not used the CPPA to hire employees but plans to submit a request for three positions. IRS officials have not pursued use of the CPPA because they believed that the expired SCP authority would be restored. Compared to the SCP, the CPPA process requires additional layers of approval and offers substantially less pay flexibility. The CPPA provides for salaries up to \$207,800 and, for the IRS, would require Treasury Department involvement and approval by the Office of Personnel Management (OPM) and OMB. The SCP authority was delegated to the IRS Commissioner in 2009 and did not need Treasury Department, OPM, and OMB approval. In addition, the SCP authorized the IRS to pay total compensation packages up to \$240,100, the U.S. Vice President's salary. However, use of the CPPA would provide the IRS with an enhanced capability in its recruitment efforts. Specifically, the \$207,800 salary available under the CPPA exceeds the \$187,000 maximum that can be offered to career-level Federal executives.

TIGTA further found that the CPPA is not widely used among other Federal Government agencies. While within the Federal Government a maximum of 800 employees can receive critical pay at any one time, only four individuals were hired as CPPA employees in CY 2015, according to the latest annual report from the OPM. Our research showed that some of the reasons the CPPA was not widely used include

the availability of other agency-specific pay authorities, the lengthy approval process, and cultural issues, such as paying employees more than their manager.

TIGTA recommended that the IRS pilot the use of the CPPA by completing and forwarding the initial CPPA package to the Secretary of the Treasury for approval. Further, the IRS should track in detail the time and effort required to get the package cleared internally and approved by the Secretary of the Treasury and then, in turn, by the OPM and the OMB. IRS management agreed with the recommendation and plans to issue the initial CPPA package for approval in November 2017 and to thoroughly document the process and time frame needed to receive approval.

**Reference No. 2017-IE-R007**



# Congressional Testimony

*On April 6, 2017, Inspector General J. Russell George testified before the House Committee on Small Business at a hearing titled: “Scam Spotting: Can the IRS Effectively Protect Small Business Information?”*

TIGTA’s body of work on identity theft indicates that the IRS is making progress in protecting taxpayer information. However, tax scams are constantly evolving, which will require the IRS to continually adapt its detection and prevention processes.

Identity-theft refund fraud occurs when an individual uses another person’s name and TIN to file a fraudulent tax return for the purpose of receiving a tax refund. For example, identity thieves file fraudulent business tax returns using the EINs of active or inactive businesses. Most recently, TIGTA reported in February 2017, that IRS efforts are resulting in improved detection of identity-theft individual tax returns before fraudulent tax refunds are released.

Beginning with the 2017 Filing Season, the IRS now has more timely access to third-party income and withholding information to compare against tax returns at the time of processing these returns. Previously, the IRS did not have this information early enough in the filing season, which had prevented it from making substantial improvements in its fraud detection efforts. Access to this information at the beginning of the filing season is the IRS’s single most important tool for the detection and prevention of tax fraud-related identity theft.

In September 2015, we reported that the IRS recognized a growing threat of employment identity theft, and in response was implementing processes to detect identity theft on business returns. However, TIGTA found that the IRS is not using data that it has readily available to proactively identify business identity theft. In response to TIGTA’s recommendations, the IRS is expanding its detection filters to identify business identity theft. For the 2017 Filing Season, the IRS is using 25 filters to identify potentially fraudulent business tax returns and prevent the issuance of fraudulent tax refunds.

Individuals can also be victims of employment identity theft, which occurs when a taxpayer’s stolen identity is used to gain employment. This can cause significant burden for the victim, due to the incorrect computation of taxes and Social Security benefits based on income that does not belong to the taxpayer. In August 2016, we reported that during the period February 2011 to December 2015, the IRS identified almost 1.1 million taxpayers who were victims of employment-related identity theft but who were not notified. The IRS did begin notifying victims in January 2017.

In addition, our ongoing audit found that the IRS's processes are not sufficient to identify all employment-related identity-theft victims.

Finally, TIGTA has reported that the IRS is effectively providing assistance to taxpayers who report that they have been victims of identity theft. In July 2015, the IRS created a centralized unit to combine the skills of employees working identity-theft cases and multiple functions into one directorate. This has resulted in improvements in case closure time frames and a reduction in case closure errors. To help protect identity-theft victims and improve authentication, the IRS began using unique identification numbers for victims in FY 2011. These numbers help the IRS verify a victim's identity when his/her tax return is filed so that the processing of the return and the refund is not delayed. However, TIGTA has found that the victims of identity-theft tax accounts were not consistently updated to ensure that these identification numbers were generated as required.

*On April 26, 2017, Inspector General J. Russell George testified before the Senate Committee on Homeland Security and Governmental Affairs at a hearing titled "Duplication, Waste, and Fraud In Federal Programs."*

The Inspector General testified at this hearing regarding TIGTA's reviews of the IRS's efforts to reduce erroneous and improper refundable tax credit payments. Refundable credits are designed to help low-income individuals reduce their tax burden or to provide incentives for other activities. Because these tax credits are refundable, they are vulnerable to unscrupulous individuals who file fraudulent claims. The EITC is the only refundable credit the IRS has designated as high-risk for improper payments.

However, TIGTA has continued to report that the IRS's improper payment risk assessments for the ACTC and the American Opportunity Tax Credit, also known as the Education Credit, substantially understate the risk of improper payments for these credits, which collectively accounted for more than \$100 billion claimed during TY 2015. For FY 2016, the IRS issued an estimated \$25 billion in potentially erroneous payments for these credits. This represents a significant loss to the Federal Government.

In addition, assessment of the risk associated with Premium Tax Credit improper payments continues to present challenges for the IRS. This credit, created by the

Affordable Care Act,<sup>255</sup> assists individuals or families in paying for their health insurance. Unlike other refundable credits, the IRS is not solely responsible for administering the Premium Tax Credit. As a result, the IRS cannot effectively assess the risks of improper payments for this credit on its own. The IRS and the Department of Health and Human Services continue to work on a methodology to effectively measure improper payments relating to this credit.

To reduce certain fraudulent and improper payments, Congress enacted the PATH Act, which, among other things, accelerates the deadlines for Forms W-2, *Wage and Tax Statement*, and other income information-related documents, and provides the IRS additional time to verify earned income tax and other tax credits that are based on income reported on tax returns.

To date, our work related to this legislation has found that the IRS has properly withheld refunds for returns with earned income and additional tax credit claims, and that it has released those returns that were not identified for additional review. IRS management informed TIGTA that these claims are being verified solely against Form W-2 data to identify claims that have unsupported income.

IRS management indicated that during the 2017 Filing Season they do not plan to use other income reporting documents to systematically verify income reported on tax returns with refundable credit claims. The IRS has cited a number of technical challenges and timing issues that need to be addressed in order to use this information to verify income at the time tax returns are processed.

In addition, the IRS was unable to implement processes to identify erroneous claims for the 2016 Filing Season by taxpayers filing tax returns for prior years to claim certain refundable credits, referred to as retroactive claims. Our review of TY 2014 tax returns filed and processed during the 2016 Filing Season identified \$35 million dollars in refundable credits that were erroneously paid to taxpayers who had filed retroactive claims.

Finally, the IRS still does not have the authority to correct tax returns during processing in situations where the information provided by the taxpayer does not match information available to the IRS. As a result, the IRS must conduct an audit to address potentially erroneous refundable claims. Without correctable error authority,

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255 Patient Protection and Affordable Care Act (Affordable Care Act), Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered section of the Internal Revenue Code and 42 U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

the IRS's ability to address those potentially erroneous refundable credit claims that it is able to identify remains limited.

*On April 26, 2017, Deputy Inspector General for Audit Michael E. McKenney testified before the House Ways and Means Subcommittee on Oversight at a hearing titled "The 2017 Filing Season."*

In his testimony, the Deputy Inspector General discussed the IRS's implementation of the integrity provisions of the PATH Act during the 2017 Filing Season and its efforts to detect and prevent identity theft and assist victims of refund-related identity theft.

The Deputy Inspector General also testified about the IRS's increasing use of technology-based services, such as IRS.gov and online applications, to assist taxpayers. With the availability of online tools comes the risk of unauthorized access, he warned.

*On May 3, 2017, Deputy Inspector General for Investigations Timothy P. Camus testified before the House Committee on Oversight and Government Reform regarding the FAFSA data breach.*

College students seeking financial assistance can use the Free Application for Federal Student Aid (FAFSA) located on the U.S. Department of Education's website. FAFSA includes a link to the Data Retrieval Tool (DRT), which allows students and parents to access their adjusted gross income (AGI) information through an interface with the IRS, and to complete the FAFSA by transferring such information directly into their FAFSA application form.

In September 2016, TIGTA detected an attempted access to the AGI of a prominent individual. During the investigation, it was determined that the FAFSA application and the DRT were used in this attempt. On January 25, 2017, the IRS reported to TIGTA that a high number of TINs were being processed through FAFSA and the DRT. The IRS told TIGTA that when they shared this observation with the Department of Education, the Department told the IRS that it believed the activity was related to student loan consolidation activity.

On February 27, 2017, a complainant reported that he received a copy of his tax transcripts at his home with a letter telling him that he had requested them. The complainant reported that he never ordered a copy of his tax transcripts. When TIGTA investigated the incident, TIGTA learned that the complainant's AGI had been accessed through the FAFSA and the DRT process.

As a result, TIGTA and the IRS determined that the January activity that the IRS observed was proof that an exploitation was under way. Initial analysis showed there were 8,000 questionable accesses at that time.

On March 3, 2017, the IRS reported that it had disabled the DRT due to privacy concerns and to protect sensitive taxpayer data.

It appears that identity thieves used personal information of individuals that they had obtained outside the tax system to start the FAFSA application process in order to secure their victims' AGI tax information through the DRT. The IRS's current estimate for the number of impacted taxpayers is approximately 100,000.

TIGTA is conducting a joint investigation of this exploitation with IRS-CI and the Department of Education Office of Inspector General (Education OIG). As part of our investigation, TIGTA is also looking back to see if there was an earlier bulk exploitation of the FAFSA and the DRT process. TIGTA is also planning to initiate an audit to review this issue.

*On May 23, 2017, Inspector General J. Russell George testified before the House Appropriations Committee Subcommittee on Financial Services and General Government regarding TIGTA's oversight of the IRS.*

The Inspector General testified at this hearing regarding the IRS's implementation of the PATH Act and its preliminary impact on improper payments. The risk of unauthorized access to tax accounts will continue to be significant as the IRS increases its efforts to deliver online tools to taxpayers. Effective authentication of individual identities is critical to ensure that taxpayers maintain confidence that their personal information is safe with the IRS.

He also testified about the IRS's increasing use of IRS.gov and other online tools that enable taxpayers to obtain information and assistance without having to call the toll-free telephone number or visit a TAC.

As of April 29, 2017, the IRS had reported 322 million visits to IRS.gov during this filing season, and is continuing to increase its toll-free telephone level of assistance. As of April 21st, taxpayers had made 54 million total attempts to contact the IRS, and 19 million calls had been answered by automation. Telephone assistors had answered over 10 million calls and provided a 79 percent Level of Service.

For FY 2017, the IRS is further reducing the number of taxpayers it plans to assist at its TACs by 23 percent. Since FY 2015, the number of taxpayers assisted by the IRS has dropped from 5.6 million to 3.4 million. The IRS has reduced the number of employees available at TACs to promote alternative service options.

*On July 25, 2017, Assistant Inspector General for Audit Greg Kutz testified before the House Ways and Means Subcommittee on Oversight at a hearing titled "IRS Electronic Record Retention Policies: Improving Compliance."*

At the request of the House Ways and Means Committee and the Senate Finance Committee, TIGTA reviewed the IRS's electronic record retention practices.<sup>256</sup> TIGTA identified several areas where improvement is needed in IRS electronic record retention policies and practices.

TIGTA's report, which was the focus of the hearing, found that IRS policies are not in compliance with certain Federal electronic records requirements and regulations. Additionally, the IRS's current e-mail system and record retention policies do not ensure that e-mail records are saved and can be searched and retrieved for as long as needed. Further, repeated changes in electronic media storage policies, combined with a reliance on employees to maintain records on computer hard drives, have resulted in cases in which Federal records were lost or destroyed.

*On July 26, 2017, Inspector General J. Russell George testified before the Senate Committee On Appropriations Subcommittee On Financial Services and General Government regarding the President's FY 2018 funding request for the Internal Revenue Service.*

The IRS is the largest component of the Department of the Treasury and has primary responsibility for administering the Nation's tax system. The Administration's proposed FY 2018 IRS budget requests appropriated resources of approximately \$11 billion, a decrease of \$260 million or 2.3 percent below the FY 2017 enacted budget level of approximately \$11.2 billion.

In his testimony, the Inspector General outlined several of the key challenges now facing the IRS as it administers our Nation's tax laws. These include: the security of taxpayer data; quality taxpayer service; refund fraud; refundable tax credit improper payments; tax compliance; and the telephone impersonation scam.

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<sup>256</sup> TIGTA, Ref. No. 2017-10-034, Electronic Record Retention Policies Do Not Consistently Ensure That Records Are Retained and Produced When Requested (July 2017).

# 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, grant, cooperative agreement, or other requirement governing the expenditure of funds;
- A finding that, at the time of the audit, such cost is not supported by adequate documentation (an unsupported cost); or
- A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

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

Reports With Questioned Costs			
Report Category	Number	Questioned Costs <sup>257</sup> (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	10	\$45,542	\$0
2. Reports issued during the reporting period		\$0	\$0
<b>3. Subtotals</b>	10	\$45,542	<b>\$0</b>
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	2	\$795	\$0
<b>5. Reports with no management decision at the end of the reporting period</b>	<b>8</b>	<b>\$44,747</b>	<b>\$0</b>
6. Reports with no management decision within six months of issuance	8	\$44,747	\$0

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<sup>257</sup> “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.<sup>258</sup> 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.

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<sup>258</sup> See Appendix II for identification of audit reports involved.

**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	\$310,415
<b>3. Subtotals</b>	<b>2</b>	<b>\$310,415</b>
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	\$310,415
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	0	\$0
<b>5. Reports with no management decision at the end of the reporting period</b>	<b>0</b>	<b>\$0</b>
6. Reports with no management decision within six months of issuance	0	\$0

# 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 law, regulation, or IRS policies and procedures. These rights most commonly arise when filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds (entitlements) are also included in this category, such as when taxpayers legitimately assert that they overpaid their taxes.

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

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

**Reliability of Management Information:** Ensuring the accuracy, validity, relevance, and integrity of data, including the sources of data and the applications and processing thereof, used by the organization to plan, monitor, and report on its financial and operational activities. This measure will often be expressed as an absolute value (*i.e.*, without regard to whether a number is positive or negative) of overstatements or understatements of amounts recorded on the organization’s documents or systems.

**Protection of Resources:** Safeguarding human and capital assets, used by or in the custody of the organization, from accidental or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation.

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

Reports With Additional Quantifiable Impact on Tax Administration			
Outcome Measure Category	Number of Reports <sup>259</sup>	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	8	4,718	\$8,466,088
Revenue Protection	2	187	\$108,611
Reduction of Burden on Taxpayers	2	637,139	\$0
Taxpayer Rights and Entitlements at Risk	8	294,395	\$229
Taxpayer Privacy and Security	1	10,842	\$0
Inefficient Use of Resources	4	0	\$72,619
Reliability of Management Information	2	4,062	\$8,905
Protection of Resources	0	0	\$0

259 See Appendix II for identification of audit reports involved.

The IRS did not agree with TIGTA's outcome measures in the following reports:

- Increased Revenue: Reference Numbers 2017-40-038, 2017-30-048 and 2017-30-045;
- Revenue Protection: Reference Number 2017-10-068;
- Reduction of Burden on Taxpayers: Reference Number 2017-40-031;
- Taxpayer Rights and Entitlements at Risk: Reference Numbers 2017-40-031, 2017-30-045, and 2017-30-082;
- Taxpayer Privacy and Security: Reference Number 2017-30-070;
- Inefficient Use of Resources: Reference Numbers 2017-40-038 and 2017-20-051; and
- Reliability of Management Information: Reference Number 2017-43-027.

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

- Increased Revenue: Reference Number 2017-30-048;
- Reduction of Burden on Taxpayers: Reference Number 2017-40-085;
- Taxpayer Rights and Entitlements at Risk: Reference Numbers 2017-30-075 and 2017-40-085;
- Taxpayer Privacy and Security: Reference Numbers 2017-30-075 and 2017-40-085; and
- Reliability of Information: Reference Numbers 2017-40-041, 2017-10-035, 2017-40-038, 2017-10-079, and 2017-10-074.

# Investigations Statistical Reports<sup>260</sup>

<b>Significant Investigative Achievements</b> (April 1, 2017 – September 30, 2017)	
<b>Complaints/Allegations Received by TIGTA</b>	
Complaints Against IRS Employees	2,460
Complaints Against Non-Employees	3,219
<b>Total Complaints/Allegations</b>	<b>5,679</b>
<b>Status of Complaints/Allegations Received by TIGTA</b>	
Investigations Initiated	973
In Process Within TIGTA <sup>261</sup>	470
Referred to IRS for Action	676
Referred to IRS for Information Only	1,025
Referred to a Non-IRS Entity <sup>262</sup>	0
Closed With No Referral	751
Closed Associated With Prior Investigation	1,619
Closed With All Actions Completed	165
<b>Total Complaints</b>	<b>5,679</b>
<b>Investigations Opened and Closed</b>	
Total Investigations Opened	1,409
Total Investigations Closed	1,483
<b>Financial Accomplishments</b>	
Embezzlement/Theft Funds Recovered	0
Contract Fraud and Overpayments Recovered	\$142,301
Court-Ordered Fines, Penalties, and Restitution	\$15,477,198
Out-of-Court Settlements	0
Potentially Compromised by Bribery	0
Tax Liability of Taxpayers Who Threaten and/or Assault IRS Employees	\$2,765,849
IRS Assets and Resources Protected Against Malicious Loss	0
<b>Total Financial Accomplishments</b>	<b>\$18,385,348</b>

<sup>260</sup> Includes the new reporting requirements under the Inspector General Empowerment Act (IGEA) of 2016, Pub. L. No. 114-317, 130 Stat. 1595.

<sup>261</sup> Complaints for which final determination had not been made at the end of the reporting period.

<sup>262</sup> A non-IRS entity includes other law enforcement entities or Federal agencies.

<b>Status of Closed Criminal Investigations</b>			
<b>Criminal Referral</b>	<b>Employee</b>	<b>Non-Employee</b>	<b>Total</b>
Referred – Accepted for Prosecution	11	35	46
Referred – Declined for Prosecution	220	165	385
Referred – Pending Prosecutorial Decision	17	62	79
<b>Total Criminal Referrals<sup>263</sup></b>	<b>248</b>	<b>262</b>	<b>510</b>
<b>No Referral</b>	<b>351</b>	<b>598</b>	<b>949</b>
<b>Criminal Dispositions<sup>264</sup></b>			
<b>Criminal Disposition</b>	<b>Employee</b>	<b>Non-Employee</b>	<b>Total</b>
Guilty	9	36	45
Nolo Contendere (no contest)	1	7	8
Pretrial Diversion	1	0	1
Deferred Prosecution <sup>265</sup>	0	1	1
Not Guilty	0	0	0
Dismissed	5	3	8
<b>Total Criminal Dispositions</b>	<b>16</b>	<b>47</b>	<b>63</b>
<b>Administrative Dispositions on Closed Investigations<sup>266</sup></b>			
<b>Administrative Disposition</b>	<b>Total</b>		
Removed / Terminated	33		
Suspended / Reduction in Grade	84		
Resigned / Retired / Separated Prior to Adjudication	92		
Oral or Written Reprimand / Admonishment	92		
Clearance Letter / Closed, No Action Taken	100		
Alternative Discipline / Letter With Cautionary Statement / Other	141		
Non-Employee Actions <sup>267</sup>	302		
<b>Total Administrative Dispositions</b>	<b>844</b>		

263 Criminal referrals include both Federal and State dispositions.

264 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.

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

266 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.

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

## Summary of Investigative Reports and Criminal Referrals

<b>Criminal Referral Breakdown</b> (April 1, 2017 – September 30, 2017)	
<b>Number of Investigative Reports Issued</b>	<b>510</b>
Referred to the Department of Justice for Criminal Prosecution	498
Referred to State/Local Prosecuting Authorities	12
<b>Number of Indictments and Criminal Informations</b>	<b>39</b>
Indictments	29
Criminal Informations	10

The above statistical table was generated as a result of a query of TIGTA OI's case tracking system, Criminal Results Management System (CRIMES).

### Interference

During the reporting period there were no attempts by the IRS to interfere with the independence of TIGTA. Additionally, the IRS did not resist, object to oversight activities, or significantly delay access to information.

### Instances of Whistleblower Retaliation

During the reporting period there were no investigations regarding whistleblower retaliation.

## Closed<sup>268</sup> Investigations Involving Internal Revenue Service Senior Government Employees<sup>269</sup>

Detailed Description of the Facts and Circumstances of the Investigation	Result	Disposition	Criminal Status	Date Referred	If Declined, Date of Declination
A senior Government employee was arrested for driving while intoxicated, reckless driving, drinking while driving, and possession of an open container.	Substantiated	Other	No referral made	N/A	N/A
A senior Government employee was alleged to have unlawfully disclosed vendor information to another vendor during an acquisition process.	Substantiated	Suspension	Declined	09/14/15	09/14/15
A senior Government employee was arrested for operating a vehicle while intoxicated.	Substantiated	Closed without action letter with cautionary statement	No referral made	N/A	N/A
A senior Government employee was alleged to have engaged in time and attendance fraud.	Substantiated	Suspension	Declined	06/10/14	06/10/14
A senior Government employee was alleged to have taken his/her official Government computer out of the country without a business purpose.	Substantiated	Oral/written counseling	No referral made	N/A	N/A
A senior Government employee was alleged to have engaged in a conspiracy to defraud the Government by misusing his/her authority to hide IRS losses of more than \$12 million.	Not Substantiated	Separated during investigation	No referral made	N/A	N/A
A senior Government employee was alleged to have engaged in a sexual act with another employee inside of his/her IRS office. The senior Government employee allegedly directed the other employee (with whom he/she engaged in a sexual act) to deny the allegations and said he/she would pay for a lawyer to defend the employee.	Substantiated	Separated during investigation	Declined	10/28/16	10/28/16
A senior Government employee was alleged to have made two unauthorized recordings of others within the workspace.	Not Substantiated	Other	No referral made	N/A	N/A
A senior Government employee was alleged to have engaged in harassment towards an IRS manager for the purpose of getting the manager to step down so that he/she could get a family member promoted into the position.	Not Substantiated	Closed without action letter with cautionary statement	No referral made	N/A	N/A

<sup>268</sup> When TIGTA refers an IRS employee investigation to the IRS, the investigation remains open until all actions are completed, including any penalty imposed upon the employee by the IRS. TIGTA closes an employee investigation after receiving notice from the IRS of the administrative action taken in response to that investigation.

<sup>269</sup> For this report, a “senior Government employee” refers to an officer or employee in the Executive branch who occupies a position classified at or above GS-15 of the General Schedule. IGEA § 4(c) (3) (C).

Detailed Description of the Facts and Circumstances of the Investigation	Result	Disposition	Criminal Status	Date Referred	If Declined, Date of Declination
A senior Government employee was alleged to have committed a conflict of interest with a subordinate by entering into a business arrangement with the subordinate with the promise of a return on investment.	Substantiated	Suspension	No referral made	N/A	N/A
A senior Government employee was alleged to have misused his/her position by directing subordinates to pick up his/her children and to utilize a Government vehicle to perform this duty.	Not Substantiated	Clearance letter	No referral made	N/A	N/A
A senior Government employee was alleged to have engaged in suspicious wire transfers and deposits, potentially related to a scheme.	Substantiated	Accepted	6 months imprisonment, 24 months supervised release, \$100 special assessment fee, employee separated from the Service during the investigation	09/15/15	N/A

# Appendix I

## Statistical Reports - Other

### Reports With Unimplemented Recommendations

The Inspector General Empowerment Act of 2016 requires the identification of any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations described in previous semiannual reports for which corrective actions have not been completed. The following list is based on information obtained from the Department of the Treasury’s Joint Audit Management Enterprise System.<sup>270, 271</sup>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2007-10-068	May 2007	6/30/18	INEFFICIENCIES IN PROCESSING OPERATIONS ASSISTANCE REQUESTS CAUSED TAXPAYERS UNNECESSARY DELAYS  F-3, R-1: Revise Form 12412, Operations Assistance Request, to allow Requests to be closed as completed or as misrouted only if they had been sent to the wrong Operations liaison.
2008-10-142	July 2008	6/30/18	IMPROVED CONTROLS OVER GRANTS PROVIDED TO LOW INCOME TAXPAYER CLINICS WOULD LOWER THE RISK OF THE INAPPROPRIATE USE OF FEDERAL GOVERNMENT FUNDS  F-2, R-1: Develop and implement a process to conduct periodic random onsite financial reviews of a sample of clinics. The financial reviews should include the verification of a sample of reported expenditures with source documents, such as invoices and receipts
2008-20-176	September 2008	09/30/18	THE OFFICE OF RESEARCH, ANALYSIS, AND STATISTICS NEEDS TO ADDRESS COMPUTER SECURITY WEAKNESSES  F-1, R-5. Ensure that audit and accountability controls are sufficient by requiring audit logs to be maintained for a minimum of six years and to be periodically reviewed by the security officer.

<sup>270</sup> These summary data do not include reports that are specifically prohibited from disclosure by any provision of law, such as 26 U.S.C. § 6103 protecting tax returns and return information, or that are specifically required by Executive order to be protected from disclosure in the interest of national defense or national security or in the conduct of foreign affairs.

<sup>271</sup> The Office of Audit has previously designated three reports with unimplemented recommendations as “Sensitive But Unclassified (SBU).” These SBU reports concern physical security of IRS facilities, as well as subject matter that might create a risk of circumvention of the law if publicly released. There are no potential cost savings associated with any unimplemented recommendations from these three reports.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2010-40-055	May 2010	12/15/18	CURRENT PRACTICES ARE PREVENTING A REDUCTION IN THE VOLUME OF UNDELIVERABLE MAIL F-1, R-3. Use hygiene software on any address system to ensure all outgoing correspondence have an accurate and complete address.
2011-10-067	July 2011	06/30/18	THE TAXPAYER ADVOCATE SERVICE CAN MORE EFFECTIVELY ENSURE LOW INCOME TAXPAYER CLINICS ARE APPROPRIATELY USING GRANT FUNDS F-1, R-2: Require that all clinics capture and maintain a minimum level of information to support income and controversy determinations. Taxpayer Advocate Service (TAS) personnel should review applicable documentation during site visitations to ensure clinics are providing the assistance intended by Congress.
2011-1C-122	September 2011	12/15/17	FINAL INCURRED COST PROPOSAL FOR FISCAL YEAR ENDING APRIL 2, 2004 F-1, R-1. Use the Defense Contract Audit Agency (DCAA) report in the administration of the contract and determine whether the questioned costs should be recovered. Potential Cost Savings: \$28,568,742
2012-1C-003	December 2011	03/15/18	CONTRACTOR'S FISCAL YEAR 2007 INCURRED COST PROPOSAL F-1, R-1. Use the DCAA report in the administration of the contract and determine whether the questioned costs should be recovered. Potential Cost Savings: \$15,732
2012-1C-032	March 2012	05/15/18	FINAL INCURRED COST PROPOSAL FOR FISCAL YEAR ENDING APRIL 1, 2005 F-1, R-1. Use the DCAA report in the administration of the contract and determine whether the questioned costs should be recovered. Potential Cost Savings: \$7,416,602
2012-10-052	June 2012	06/30/18	THE TAXPAYER ADVOCATE SERVICE'S ASK-TAS1 TOLL-FREE LINE HAS EVOLVED OVER TIME, BUT ADDITIONAL STEPS ARE NECESSARY TO EVALUATE ITS IMPACT F-1, R-3: Ensure a process is implemented to periodically analyze the call statistics captured by the Wage and Investment Division for the new process to determine whether TAS personnel are answering incoming and transferred calls to the ASK-TAS1 toll-free line in an efficient manner.
2012-1C-079	August 2012	01/15/18	FISCAL YEAR 2011 COMPLIANCE WITH REQUIREMENTS OF OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 APPLICABLE TO RESEARCH AND DEVELOPMENT F-1, R-1. Use the DCAA report in administering and closing out contracts. Potential Cost Savings: \$1,477,659
2013-1C-001	March 2013	03/18/18	INDEPENDENT AUDIT OF THE CONTRACTOR'S CIVIL INFORMATION TECHNOLOGY FISCAL YEAR ENDED MARCH 31, 2006, FINAL INCURRED COST PROPOSAL F-1, R-1. Use the DCAA report in administering and closing out contracts. Potential Cost Savings: \$327,845

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2013-20-025	June 2013		DESKTOP AND LAPTOP SOFTWARE LICENSE MANAGEMENT IS NOT BEING ADEQUATELY PERFORMED
		11/15/17	F-2, R-2. To help ensure that the User and Network Services organization has processes for using software license tools which adhere to Federal requirements and recommended best practices, implement a specialized software license tool designed to discover, track, and manage software license deployment and usage.
		11/15/17	F-3, R-1. Develop an inventory of software licensing data and maintain the inventory with a specialized software license tool designed to discover, track, and manage software license deployment and usage.
		11/15/17	F-3, R-2. Maintain data in the inventory that the IRS can use to more effectively review software licensing agreements, purchases, deployment, usage, and other related aspects of licensing to identify additional savings in software spending.
2014-1C-018	March 2014		INDEPENDENT AUDIT OF THE CONTRACTOR'S INCURRED COST PROPOSAL FOR FISCAL YEAR ENDING MARCH 30, 2007
		12/19/18	F-1, R-1. Use the DCAA report in administering and closing out contracts.  Potential Cost Savings: \$6,470,339
2014-1C-019	May 2014		INDEPENDENT AUDIT OF THE CONTRACTOR'S ASSET MANAGEMENT'S INCURRED COSTS FOR FISCAL YEAR ENDED DECEMBER 31, 2005
		05/29/19	F-1, R-1. Use the DCAA report in administering and closing out contracts.  Potential Cost Savings: \$8,431
2014-10-033	June 2014		THE TAXPAYER ADVOCATE SERVICE CAN IMPROVE THE PROCESSING OF SYSTEMIC BURDEN CASES
		03/31/18	F-1, R-1. Reissue guidance to explain the requirement to only contact authorized representatives when applicable, and emphasize this in future training.
		03/31/18	F-1, R-3. Review the results of sample findings and incorporate into future training lessons learned.
2014-20-083	September 2014		THE INTERNAL REVENUE SERVICE SHOULD IMPLEMENT AN EFFICIENT INTERNAL INFORMATION SECURITY CONTINUOUS MONITORING PROGRAM THAT MEETS ITS SECURITY NEEDS
		05/15/18	F-1, R-1. Select and implement an integrated dashboard of the security scanning tools to allow stakeholder and decision makers to make well-informed risk-based decisions.
2014-40-084	September 2014		A SERVICE-WIDE STRATEGY IS NEEDED TO INCREASE BUSINESS TAX RETURN ELECTRONIC FILING
		12/15/20	F-2, R-1. Develop a less burdensome electronic signature process for businesses e-filing employment tax returns using the Modernized e-File system.
2014-20-085	September 2014		INCREASED SUPPORT IS NEEDED TO ENSURE THE EFFECTIVENESS OF THE FINAL INTEGRATION TEST
		10/15/17	F-3, R-1. To ensure that the Final Integration Test (FIT) program's environment simulates the filing season environment as closely as possible, implement the environment comparison and synchronization process between the FIT program's environment and the filing season environment.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2014-20-083	September 2014	05/15/18	<p>THE INTERNAL REVENUE SERVICE SHOULD IMPLEMENT AN EFFICIENT INTERNAL INFORMATION SECURITY CONTINUOUS MONITORING PROGRAM THAT MEETS ITS SECURITY NEEDS</p> <p>F-1, R-1: Select and implement an integrated dashboard of the security scanning tools to allow stakeholder and decision makers to make well-informed risk-based decisions.</p>
2015-1C-040	July 2015	02/11/19	<p>PROPOSED AMOUNTS ON UNSETTLED FLEXIBLY PRICED CONTRACTS FOR FISCAL YEAR 2008</p> <p>F-1, R-1. Use the DCAA report in administering and closing out contracts.</p> <p>Potential Cost Savings: \$461,653</p>
2015-30-052	July 2015	09/28/18	<p>IMPROVEMENT IS NEEDED IN COMPLIANCE EFFORTS TO IDENTIFY UNSUPPORTED CLAIMS FOR FOREIGN TAX CREDITS</p> <p>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.</p> <p>Potential Increased Revenue: \$40,000,000</p>
2016-40-008	December 2015	On Hold	<p>CONTINUED REFINEMENT OF THE RETURN REVIEW PROGRAM IDENTITY-THEFT DETECTION MODELS IS NEEDED TO INCREASE DETECTION</p> <p>F-2, R-2. Ensure that tax examiners reverse the fraudulent tax return data entries from the taxpayer's account and place an identity-theft indicator on the taxpayer's account for an undelivered check when the taxpayer has not satisfactorily resolved the issue after 30 calendar days.</p>
2016-40-009	December 2015	On Hold	<p>PROCESSES ARE NEEDED TO ENSURE RELIABILITY OF FEDERAL UNEMPLOYMENT TAX CERTIFICATION FILES AND TO WORK MULTI-STATE CASES</p> <p>F-1, R-1: Develop a process to identify errors in key data fields, i.e., State wage fields, State unemployment tax rate fields, and the State payment fields, used to calculate allowed Federal Unemployment Tax Act (FUTA) tax credit as part of the IRS's upfront data validation process for State FUTA Certification Data Files. For those errors that materially affect the calculation of allowed FUTA tax credit, request corrected files.</p> <p>Potential Increased Revenue: \$19,700,000</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2016-40-028	March 2016		REVISING TAX DEBT IDENTIFICATION PROGRAMMING AND CORRECTING PROCEDURAL ERRORS COULD IMPROVE THE TAX REFUND OFFSET PROGRAM
		On Hold	F-1, R-1: Revise identification processes to include sole proprietor information from Form SS-4, Application for Employer Identification Number, to identify individual tax refunds to offset to business tax debt.
		On Hold	F-2, R-4: Revise computer programming to ensure that credit elects are offset to any associated tax debt on the Non-Master File.
		On Hold	F-3, R-1: Revise computer programming to use the Limited Liability Companies (LLC) indicator on the business tax account to ensure that individual tax refunds are not offset to the associated LLC's business tax debt.
		01/15/18	F-3, R-2: Identify and transfer the incorrect offsets totaling \$780,474 from the 502 LLC accounts back to the individual taxpayer accounts. In addition, identify other accounts with incorrect offsets subsequent to the time frame of TIGTA's TY 2013 analysis until programming is corrected and transfer incorrectly offset refunds back to the individual taxpayer accounts.
2016-43-033	March 2016		AFFORDABLE CARE ACT: INTERNAL REVENUE SERVICE VERIFICATION OF PREMIUM TAX CREDIT CLAIMS DURING THE 2015 FILING SEASON
		On Hold	F-2, R-1: Modify the Income and Family Size Verification processes to use the most current data available at the time a request is received from an Exchange when determining if a taxpayer has reconciled Advance Premium Tax Credit received in the prior calendar year.
2016-30-030	June 2016		IMPROVEMENTS ARE NEEDED IN OFFSHORE VOLUNTARY DISCLOSURE COMPLIANCE AND PROCESSING EFFORTS
		On Hold	F-2, R-2. Establish one mailing address for taxpayers to use for submitting their offshore voluntary disclosure requests and related documentation.
2016-10-038	June 2016		ACCESS TO GOVERNMENT FACILITIES AND COMPUTERS IS NOT ALWAYS REMOVED WHEN EMPLOYEES SEPARATE
		06/15/18	F-1, R-1: Review and update the current Separating Employee Clearance policies, procedures, and controls, including the Internal Revenue Manual (IRM), and provide comprehensive training on the updated procedures to managers and security personnel. This should include periodic reminders and highlights of the risk of Separating Employee Clearance procedures not being followed.
2016-10-057	August 2016		IMPROVED CONTROLS ARE NEEDED TO ACCOUNT FOR THE ISSUANCE AND RETURN OF CONTRACTOR EMPLOYEE LAPTOP COMPUTERS
		12/15/17	F-1, R-1. Strengthen management oversight by updating appropriate checklists (or the appropriate contract administration process) and conduct training to provide reasonable assurance that barcodes are documented in contract administration documentation for the issuance of laptop computers to contractor employees and the return of laptop computers from contractor employees.
		12/15/17	F-1, R-2. Develop a process to review and compare contract administration documentation to computer inventory records to provide reasonable assurance that barcodes are documented correctly in contract administration files for the issuance and return of laptop computers to contractor employees.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2016-30-059	August 2016	03/01/18	<p>THE WHISTLEBLOWER PROGRAM HELPS IDENTIFY TAX NONCOMPLIANCE; HOWEVER, IMPROVEMENTS ARE NEEDED TO ENSURE THAT CLAIMS ARE PROCESSED APPROPRIATELY AND EXPEDITIOUSLY</p> <p>F-4, R-5. Incorporate key guidance into the IRM to explain Whistleblower Program operations and update when necessary.</p>
2016-20-082	September 2016	12/15/17	<p>IMPROVEMENTS ARE NEEDED TO STRENGTHEN ELECTRONIC AUTHENTICATION PROCESS CONTROLS</p> <p>F-4, R-1: Compile periodic summary data of e-Authentication volume and unusual activity trigger event transactions, so that data can be compared over time to identify trends or outliers.</p>
2016-30-070	September 2016	11/15/17	<p>EXAMINATION COLLECTIBILITY PROCEDURES NEED TO BE CLARIFIED AND APPLIED CONSISTENTLY</p> <p>F-1, R-1. Revise the IRM to provide clear instructions on documenting collectability determinations, including examples of when cases should be given consideration for being surveyed and not given consideration for being surveyed due to collectability considerations.</p> <p>Potential Increased Revenue: \$75,558,865</p> <p>11/15/17 F-1, R-2. Provide training to examiners on collectability determinations.</p> <p>11/15/17 F-1, R-3. Consider tracking returns that are surveyed due to collectability.</p> <p>11/15/17 F-2, R-1. Provide training to examiners on the need to coordinate with the Collection function.</p> <p>11/15/17 F-2, R-2. Revise the IRM to be consistent about when the examiner should contact the Collection function.</p> <p>11/15/17 F-2, R-3. Consider the feasibility of adding a Master File indicator to alert the Collection function when a taxpayer was unable to be contacted or located during an examination.</p> <p>11/15/17 F-3, R-1. Use available resources, such as the Enforcement Revenue Information System, to measure and track collectability as it relates to examination assessments and the goal of decreasing the Accounts Receivable Dollar Inventory (ARDI) and increasing the quality of assessments.</p>
2016-30-087	September 2016	11/15/17	<p>FISCAL YEAR 2016 STATUTORY AUDIT OF COMPLIANCE WITH LEGAL GUIDELINES PROHIBITING THE USE OF ILLEGAL TAX PROTESTER AND SIMILAR DESIGNATIONS</p> <p>F-1, R-1: Emphasize to all examination employees the importance of compliance with RRA 98 § 3707 and reinforce that taxpayers are not to be referred to as Illegal Tax Protestors or any other similar designations. This may include, but is not limited to, updating examination procedures, issuing a memorandum, or adding a module to an existing training course.</p>
2016-30-089	September 2016	10/15/18	<p>THE LARGE BUSINESS AND INTERNATIONAL DIVISION'S STRATEGIC SHIFT TO ISSUE-FOCUSED EXAMINATIONS WOULD BENEFIT FROM RELIABLE INFORMATION ON COMPLIANCE RESULTS</p> <p>F-2, R-1: Develop and implement plans to streamline the Uniform Issue List (UIL) codes available to examiners, provide additional guidance for the appropriate use of UIL codes, and include UIL code accuracy in program and evaluative quality reviews.</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2016-40-078	September 2016	11/15/17	DUE TO THE LACK OF ENFORCEMENT, TAXPAYERS ARE AVOIDING BILLIONS OF DOLLARS IN BACKUP WITHHOLDING  F-2, R-1. Evaluate and document the criteria used to exclude information returns with missing or incorrect taxpayer identification numbers (TIN) from payer notification.
		11/15/17	F-3, R-1. Update payer identification and notification processes to include Forms 1099-G with missing or incorrect payee TINs.
		03/15/18	F-3, R-2. Update all applicable publications, instructions, and website information to include Forms 1099-G as the payments relate to backup withholding provisions.
2016-30-083	September 2016	09/28/18	AS THE USE OF VIRTUAL CURRENCIES IN TAXABLE TRANSACTIONS BECOMES MORE COMMON, ADDITIONAL ACTIONS ARE NEEDED TO ENSURE TAXPAYER COMPLIANCE  F-1, R-1. Develop a coordinated virtual currency strategy that includes outcome goals, a description of how the agency intends to achieve those goals, and an action plan with a timeline for implementation. In addition, the strategy should use the tools available to the IRS and identify how the IRS is going to meet its Bank Secrecy Act, criminal investigation, and tax enforcement obligations as related to virtual currencies as well as identify how actions will be monitored and the methodologies used to measure the actions taken.
2016-30-085	September 2016	10/15/17	IMPROVEMENTS TO THE NONFILER PROGRAM COULD HELP THE INTERNAL REVENUE SERVICE MORE EFFECTIVELY ADDRESS ADDITIONAL NONFILERS OWING BILLIONS OF DOLLARS IN TAXES  F-1, R-4. Analyze the population of TY 2013 High-Income Nonfilers (HINF) with expired extensions identified as not having filed a tax return and notify those taxpayers of the requirement to file the TY 2013 tax return. If resources do not allow for the notification of the entire population, document the analysis performed to determine the percentage of number of TY 2013 HINFs with expired extensions should be notified.  Potential Increased Revenue: \$2,700,000,000
		10/15/17	F-2, R-1. Develop a strategy for evaluating and improving the effectiveness of the delinquency notice, which may include tracking the reasons for taxpayer inquiries at IRS call sites.
		10/15/17	F-2, R-2. Revise the nonfiler strategy to include specific action items aimed at increasing the number of nonfilers who are contacted and the nonfiler response rate. Action items should focus on increasing automation and addressing areas of taxpayer confusion in an effort to limit any additional burden on current resources in the Compliance Services Collection Operations function.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2016-30-090	September 2016	09/15/18	BARRIERS EXIST TO PROPERLY EVALUATING TRANSFER PRICING ISSUES F-1, R-1. Ensure that employees follow the Transfer Pricing Audit Roadmap (Roadmap) and include this as an attribute of the quality review process.
		09/15/18	F-1, R-2. Ensure that taxpayers undergoing examinations with a transfer pricing issue have a clear understanding of the Roadmap. This should include providing them a copy of the Roadmap prior to the beginning of the examination engagement and requiring employees to be consistent in its use.
		09/15/18	F-2, R-1. Ensure that Transfer Pricing Practice (TPP) employees have full access to the SRS and that they work collaboratively with the International Business Compliance (IBC) function to ensure that transfer pricing issues are consistently identified and directed for specialized review.
		09/15/18	F-2, R-3. Ensure that adequate transfer pricing training is provided. The Large Business and International (LB&I) Division should require mandatory transfer pricing specific training for TPP and IBC function employees and managers. The LB&I and Small Business/Self-Employed (SB/SE) Divisions should ensure that LB&I (Domestic) and SB/SE Divisions' Examination function employees and managers with potential exposure to transfer pricing issues be adequately trained to identify, refer (as necessary), and work transfer pricing issues appropriately. Detailed training plans should be implemented and include documentation and tracking of all employees' successful completion of the mandatory training.
		09/15/18	F-3, R-1. Develop a comprehensive transfer pricing strategy that includes outcome-related strategic goals, a description of how the LB&I Division intends to achieve those goals, and an action plan with a timeline for implementation. This strategy should measure the success and productivity of the examinations of transfer pricing issues. This should include, but is not limited to, the amount of the examination adjustments and the taxes ultimately assessed.
2017-30-010	October 2016	11/15/17	EMPLOYEES SOMETIMES DID NOT ADHERE TO E-MAIL POLICIES WHICH INCREASED THE RISK OF IMPROPER DISCLOSURE OF TAXPAYER INFORMATION F-1, R-1: Determine the feasibility of implementing a systemic solution to help ensure that e-mails with PII/tax return information are encrypted. Until such a solution is identified, consider requiring the default Microsoft Outlook setting to encrypt e-mail messages for compliance and enforcement employees who routinely send taxpayer information by e-mail and other employees who routinely send employee PII/tax return information, e.g., human resource personnel.
		10/15/20	F-3, R-1: Update the EEFax system to allow encrypted messages to be sent to the EEFax system server.
2017-40-011	November 2016	On Hold	ACTIONS CAN BE TAKEN TO IMPROVE PROCESSES OF A NEWLY DEVELOPED PROGRAM THAT ENABLES VICTIMS OF IDENTITY THEFT TO REQUEST COPIES OF FRAUDULENT TAX RETURNS F-1, R-2: Implement an automated process to redact PII on copies of fraudulent returns provided to identity-theft victims.
2017-40-014	January 2017	On Hold	RESULTS OF THE 2016 FILING SEASON F-2, R-1: Implement computer programming changes to ensure that Residential Energy Efficient Property Credit claims are not inappropriately limited to \$500 or \$1,000.
2017-40-017	February 2017	09/15/18	EFFORTS CONTINUE TO RESULT IN IMPROVED IDENTIFICATION OF FRAUDULENT TAX RETURNS INVOLVING IDENTITY THEFT; HOWEVER, ACCURACY OF MEASURES NEEDS IMPROVEMENT F-2, R-3: Exclude tax returns from potential undetected identity theft when mismatches of tax return income are due to amended or duplicate income documents.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
2017-43-022	March 2017	On Hold	<p>AFFORDABLE CARE ACT: VERIFICATION OF PREMIUM TAX CREDIT CLAIMS DURING THE 2016 FILING SEASON</p> <p>F-5, R-1: Modify nonfiler identification processes to use the most current data available at the time notices are sent to ensure that resources are not wasted alerting individuals of nonfiling when in fact a return or request for an extension has been received.</p> <p>Potential Cost Savings: \$7,676</p>
2017-10-019	March 2017	12/15/17	<p>RESOLUTION OF DEFENSE CONTRACT AUDIT AGENCY FINDINGS OF QUESTIONED CONTRACTOR COSTS NEED SIGNIFICANT IMPROVEMENT</p> <p>F-1, R-2: Ensure that findings of questioned costs identified in audits of contractor incurred costs are addressed in conformance with requirements of Treasury Directive 40-03 and the Office of Management and Budget Circular No. A-50, which establishes 11 standards that must be met to assure the prompt and proper resolution of audit findings and implementation of audit recommendations.</p>
		12/15/17	<p>F-3, R-1: Develop procedures that require the inclusion of cognizant contractor audit representatives on negotiation teams lead by IRS contracting officers.</p>
2017-10-018	March 2017	04/15/19	<p>STATUS OF DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT IMPLEMENTATION EFFORTS</p> <p>F-1, R-2: Pursue methods of automating the capture of data for 10 procurement-related elements required by the Digital Accountability and Transparency Act reporting in its successor procurement system.</p>
2017-10-020	March 2017	12/15/17	<p>CONTINUITY PLANNING AND EMERGENCY PREPAREDNESS FOLLOW-UP AUDIT</p> <p>F-1, R-2: Improve the process of tracking compliance with required training for continuity positions by developing and maintaining an accurate list of active personnel and monitoring this list for training compliance.</p>
		12/15/17	<p>F-1, R-3: Improve the process of monitoring tests and exercises by requiring timely completion and timely submission of the After-Action Reports for each exercise.</p>
		12/15/17	<p>F-2, R-1: Ensure that After-Action Reports are prepared for all real incidents so that deficiencies are tracked and monitored.</p>
2017-40-026	March 2017	10/15/17	<p>INCONSISTENT PROCESSES AND PROCEDURES RESULT IN MANY VICTIMS OF IDENTITY THEFT NOT RECEIVING IDENTITY PROTECTION PERSONAL IDENTIFICATION NUMBERS</p> <p>F-2, R-1: Ensure that all functions have consistent procedures for adding identity theft markers that create an Identity Protection Personal Identification Number for all confirmed victims of identity theft whose current address cannot be confirmed.</p>
		10/15/18	<p>F-4, R-2: Develop an outreach strategy to increase taxpayer awareness in identified locations of the Opt-In Program.</p>
2017-10-023	March 2017	03/15/18	<p>SOME MANAGERIAL SALARIES WERE CALCULATED INCORRECTLY DUE TO COMPLEX PAY-SETTING RULES</p> <p>F-1, R-2: Analyze the results from the pay-setting risk analysis and look for opportunities to simplify pay calculation processes in areas in which common pay errors are identified.</p>

## Other Statistical Reports

The Inspector General Act of 1978, as amended, requires Inspectors General to address the following issues: <sup>272</sup>	
Issue	Result for TIGTA
<p><b>Interference/Access to Information</b></p> <p>Report any attempt to interfere with the independence of the Office, including: budget constraints designed to limit the capabilities of the Office; and incidents of resistance or objection to oversight activities of the Office.</p> <p>Report restricted or significantly delayed access to information, including the justification of the establishment for such action.</p>	<p>As of September 30, 2017, there were no attempts to interfere with the independence of the Office or any instances of restricted or significantly delayed access to information.</p>
<p><b>Disputed Audit Recommendations</b></p> <p>Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of September 30, 2017, there were no instances where significant recommendations were disputed.</p>
<p><b>Revised Management Decisions</b></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 September 30, 2017, there were no significant revised management decisions.</p>
<p><b>Audit Reports Issued in the Prior Reporting Period With No Management Response</b></p> <p>Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response was received within 60 days of the report issuance date.</p>	<p>As of September 30, 2017, there were no prior reports where management's response was not received within 60 days of issuance.</p>
<p><b>Disclosure</b></p> <p>Provide detailed descriptions of the circumstances of each inspection, evaluation, and audit that was closed by the agency and was not disclosed to the public.</p>	<p>As of September 30, 2017, there were no reports that had been closed and were not disclosed to the public.</p>
<p><b>Review of Legislation and Regulations</b></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 212 proposed regulations and legislative requests during this reporting period.</p>

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<sup>272</sup> Includes the reporting requirements of the IGEA.

# Appendix II

## Audit Products

April 1, 2017 – September 30, 2017

Audit Products	
Reference Number	Report Title
<b>April 2017</b>	
2017-43-027	Affordable Care Act: Assessment of Efforts to Implement the Employer Shared Responsibility Provision (Reliability of Information: 4,062 Business taxpayer accounts impacted)
2017-40-030	Revised Refundable Credit Risk Assessments Still Do Not Provide an Accurate Measure of the Risk of Improper Payments
<b>May 2017</b>	
2017-40-033	Implementation of the Health Coverage Tax Credit Enrollment and Systemic Advance Monthly Payment Process
2017-40-037	Improvements Are Needed to Ensure That Tax Accounts on the Automated Non-Master File Are Accurately Processed (Increased Revenue: \$2,109,709 impacting 312 taxpayer accounts; Taxpayer Rights and Entitlements: \$88,756 impacting 153 taxpayer accounts)
<b>June 2017</b>	
2017-20-024	Information Technology: Improvements Are Needed in Enterprise-Wide Disaster Recovery Planning and Testing
2017-40-036	Centralization of Identity Theft Victim Assistance Reduced Case Closure Time Frames and Tax Account Errors
2017-20-029	The Big Data Analytics General Support System Security Controls Need Improvement
2017-40-031	The Number of Employment-Related Identity Theft Victims Is Significantly Greater Than Identified (Taxpayer Burden: 608,226 taxpayer accounts impacted; Taxpayer Rights and Entitlements: 290,578 taxpayer accounts impacted)
2017-40-040	Actions Can Be Taken to Increase Detection of Frivolous Redemption Claims
<b>July 2017</b>	
2017-10-043	Investigative Equipment Was Returned When Criminal Investigation Employees Separated
2017-10-034	Electronic Record Retention Policies Do Not Consistently Ensure That Records Are Retained and Produced When Requested
2017-40-042	Processes Do Not Maximize the Use of Third Party Income Documents to Identify Potentially Improper Refundable Credit Claims (Funds Put to Better Use: \$149,264,685; Increased Revenue: \$3,205,698 impacting 4,406 taxpayer accounts)
2017-40-041	Actions Need to Be Taken to Ensure Compliance With Prisoner Reporting Requirements and Improve Identification of Prisoner Returns (Funds Put to Better Use: \$161,150,021; Reliability of Information: 4,158 records impacted)
2017-10-035	The Internal Revenue Service Continues to Rehire Former Employees With Conduct and Performance Issues (Reliability of Information: 69 employees impacted)
2017-33-044	The Internal Revenue Service Has Improved Processing and Review of Small Business Health Care Tax Credit Claims; However, Use of the Credit Has Decreased Significantly
2017-40-038	Case Selection Processes Result in Billions of Dollars in Potential Employer Underreported Tax Not Being Addressed (Increased Revenue: \$7,266,926,976; Inefficient Use of Resources: \$33,017; Reliability of Information: 4,780 discrepancy cases impacted)
2017-10-060	Review of the Internal Revenue Service's Purchase Card Violations Report
2017-43-052	Affordable Care Act: Implementation of the Notification Requirement for Individual Filers Not Enrolled in Health Insurance

## Audit Products

Reference Number	Report Title
2017-30-047	Fiscal Year 2017 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute
<b>August 2017</b>	
2017-10-046	Status of the Implementation of the Federal Financial Management Improvement Act
2017-20-039	Additional Efforts Are Needed to Ensure the Enterprise E-Mail Records Management Solution Meets All Requirements Before Deployment
2017-20-032	The Internal Revenue Service Does Not Have a Cloud Strategy and Did Not Adhere to Federal Policy When Deploying a Cloud Service
2017-30-045	Improvements Are Needed to Ensure That Puerto Rico Residents With Unreported and Underreported Self-Employment Tax Are Properly Identified and Examined (Increased Revenue: \$285,000,000; Taxpayer Rights and Entitlements: 111 taxpayer accounts impacted)
2017-30-053	Delinquent Federal Contractors Are Not Always Included in the Federal Payment Levy Program (Increased Revenue: \$2,693,000)
2017-20-049	Analysis of Fiscal Year 2016 Additional Appropriations for Cybersecurity and Identity Theft Prevention Improvements
2017-30-065	Fiscal Year 2017 Statutory Review of Compliance With Legal Guidelines When Issuing Levies (Taxpayer Rights and Entitlements: 3,524 taxpayer accounts impacted)
2017-30-048	Additional Controls Are Needed to Help Ensure That Nonresident Alien Individual Property Owners Comply With Tax Laws (Increased Revenue: \$18,258,884 impacting 5,634 Nonresident Alien Individual Property Owners)
2017-30-058	Fiscal Year 2017 Statutory Review of Disclosure of Collection Activities on Joint Returns
2017-30-063	Fiscal Year 2017 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 21 taxpayer accounts impacted)
2017-30-059	Fiscal Year 2017 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations
2017-20-050	The Computer Security Incident Response Center Is Preventing, Detecting, Reporting, and Responding to Incidents, but Improvements Are Needed
<b>September 2017</b>	
2017-30-071	Fiscal Year 2017 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2017-30-075	Fiscal Year 2017 Statutory Review of Compliance With the Freedom of Information Act (Taxpayer Rights and Entitlements: 385 responses to Freedom of Information Act request impacted; Taxpayer Privacy and Security: four responses to Freedom of Information Act requests impacted)
2017-20-057	While Release 1.0 of the Web Applications System Was Successfully Deployed, Several Factors Contributed to Implementation Delays
2017-30-072	Trends in Compliance Activities Through Fiscal Year 2016
2017-20-051	Sixty-Four Percent of the Internal Revenue Service's Information Technology Hardware Infrastructure Is Beyond Its Useful Life (Inefficient Use of Resources: \$67,000,000)
2017-30-077	Exchange of Information Capabilities Are Underutilized by the Internal Revenue Service
2017-10-055	Review of the Office of Appeals Collection Due Process Program
2017-30-076	Fiscal Year 2017 Statutory Review of Restrictions on Directly Contacting Taxpayers
2017-40-085	Further Actions Are Needed to Reduce the Risk of Employment Tax Fraud to Businesses That Use the Services of Professional Employer Organizations (Taxpayer Burden: 698,660 tax notices impacted; Inefficient Use of Resources: \$2,735,114; Taxpayer Rights and Entitlements: 256,826 tax notices impacted; Taxpayer Privacy and Security: 5,296,908 tax notices impacted)

**Audit Products**

Reference Number	Report Title
2017-30-073	Declining Resources Have Contributed to Unfavorable Trends in Several Key Criminal Investigation Business Results
2017-20-067	Limited Information Technology Resources Should Be Focused On Fewer Improvement Initiatives to Ensure Completion
2017-20-062	The Internal Revenue Service Is Not in Compliance With Federal Requirements for Software Asset Management
2017-30-070	Fiscal Year 2017 Statutory Review of Compliance With Notice of Federal Tax Lien Filing Due Process Procedures (Taxpayer Rights and Entitlements: four taxpayer accounts impacted; Taxpayer Burden: 28,913 taxpayer accounts impacted; Taxpayer Privacy and Security: 10,842 taxpayer accounts impacted)
2017-20-061	The External Network Perimeter Was Generally Secure, Though the Security of Supporting Components Could Be Improved
2017-40-088	Improvements Are Needed to Ensure That the Volunteer Income Tax Assistance Grant Program Extends Tax Return Preparation to Underserved Populations
2017-10-056	Improvements *****273
2017-20-080	The Return Review Program Increases Fraud Detection; However, Full Retirement of the Electronic Fraud Detection System Will Be Delayed
2017-30-069	Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases
2017-30-084	Improvement Is Needed in Compliance Efforts to Identify Unsupported Claims for Foreign Tax Credits (Revenue Protection: \$70,537,998 impacting 172 tax accounts)
2017-30-082	Procedures for Retirement Account and Thrift Savings Plan Levies Are Not Always Followed by Revenue Officers (Taxpayer Rights and Entitlements: \$140,615 impacting 4 taxpayer accounts)
2017-30-081	Improvements Are Needed in the Estate and Gift Tax Return Examination Process
2017-10-079	Further Improvements Are Needed to Monitor and Collect Employee Nontax Debts (Inefficient Use of Resources: \$2,850,464; Reliability of Information: 6,545 nontax debts from Internal Revenue Service employees totaling \$8,904,765)
2017-10-074	Four Fair Tax Collection Practices Violations Resulted in Administrative Actions in Fiscal Year 2016 (Reliability of Information: 21 Internal Revenue Service employee misconduct cases impacted)
2017-10-054	Review of Selected Criteria Used to Identify Tax Exempt Applications for Review
2017-10-068	Better Documentation Is Needed to Support Office of Appeals' Decisions on International Cases (Revenue Protection: \$38,073,014 impacting 15 taxpayer accounts)
2017-20-064	The Identity Theft Tax Refund Fraud Information Sharing and Analysis Center Generally Adhered to Data Protection Standards, but Additional Actions Are Needed
2017-20-089	Annual Assessment of the Internal Revenue Service Information Technology Program
2017-30-083	The Internal Revenue Service Is Underutilizing Form 1099-K Data to Identify Tax Returns for Audit
2017-20-087	Federal Information Security Modernization Act Report for Fiscal Year 2017
2017-30-078	A Significantly Reduced Automated Substitute for Return Program Negatively Affected Collection and Filing Compliance (Increased Revenue: \$887,893,885)

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273 This information is redacted because it is Law Enforcement Information Related to the Physical Safety of an Individual.

# Appendix III

## TIGTA's Statutory Reporting Requirements

TIGTA issued 16 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2017, TIGTA completed its 16<sup>th</sup> round of statutory reviews that are required annually by RRA 98. It will also complete its annual review 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, the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Data Accountability and Transparency Act of 2014. The following table reflects the FY 2017 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Enforcement Statistics</b></p> <p>Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.</p>	<p><b>Ref. No. 2017-30-071, Sep. 2017</b></p> <p>TIGTA found instances of noncompliance with RRA 98 Section 1204 requirements. TIGTA identified instances of noncompliance with each of the following subsections of the law: Section 1204(a) – five potential violations in which an IRS manager used a Record of Tax Enforcement Results (ROTTER) to evaluate an employee and/or suggest a production quota or goal; Section 1204(b) – eight instances of noncompliance in which six IRS managers either failed to maintain the retention standard documentation or ensure that it was appropriately signed and/or dated; and Section 1204(c) – 12 instances of noncompliance in which seven IRS managers did not properly certify in writing to the IRS Commissioner or provide documentation as to whether ROTERs and/or production quotas or goals were used in a prohibited manner.</p>
<p><b>Restrictions on Directly Contacting Taxpayers</b></p> <p>I.R.C. § 7803(d)(1)(A)(ii)</p>	<p>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.</p>	<p><b>Ref. No. 2017-30-076, Sep. 2017</b></p> <p>TIGTA reviewed the case history narratives for a sample of taxpayers and found a small number of instances in which revenue officers contacted taxpayers directly even though there was an authorized representative on file. These contacts may have violated I.R.C. § 6304, which could indicate that the rights granted under I.R.C. § 7521 were also not protected.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Filing of a Notice of Lien</b> I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 (a) upon the filing of a notice of lien.	<b>Ref. No. 2017-30-070, Sep. 2017</b> Tests of a statistically valid sample of 133 Notice of Federal Tax Liens (NFTL) determined the IRS timely and correctly mailed the NFTL and appeal rights notices to the taxpayers' last known addresses. However, tests of a judgmental sample of 94 undelivered lien notices identified seven cases for which lien notices were sent to the taxpayers' old addresses even though IRS systems had the new addresses.
<b>Extensions of the Statute of Limitations for Assessment of Tax</b> 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.	<b>Ref. No. 2017-30-047, July 2017</b> TIGTA's review of a statistical sample of 60 closed taxpayer audit files with assessment statute extensions found that the IRS was compliant with I.R.C. §6501(c) (4)(B). However, seven of the taxpayer audit files did not contain documentation to indicate whether taxpayers were properly notified of their rights as required by the IRS's internal procedures.
<b>Levies</b> 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.	<b>Ref. No. 2017-30-065, Aug. 2017</b> The IRS is protecting taxpayers' rights when issuing systemic and manual levies in cases for which additional assessments were not included in the levy. TIGTA reviewed statistical samples of systemic and manual levies issued by the Automated Collection System, systemic levies issued by revenue officers, and a judgmental sample of manual levies issued by revenue officers and determined that controls ensured that taxpayers were given notice of their Collection Due Process rights at least 30 calendar days prior to the issuance of the levies.
<b>Collection Due Process</b> 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.	<b>Ref. No. 2017-10-055, Sep. 2017</b> During this year's audit, TIGTA identified similar deficiencies in the IRS's processing of Collection Due Process cases as previously reported. Specifically, the Office of Appeals did not always classify taxpayer requests properly and, as a result, some taxpayers received the wrong type of hearing. In addition, TIGTA continued to identify errors related to the determination of the Collection Statute Expiration Date (CSED) on taxpayer accounts.
<b>Seizures</b> 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.	<b>Ref. No. 2017-30-063, Aug. 2017</b> TIGTA reviewed a random sample of 50 seizures conducted from July 1, 2015, through June 30, 2016, and identified 16 instances in which the IRS did not comply with a particular I.R.C. section or the related IRM requirement. Additionally, TIGTA reviewed all 11 real property seizure redemptions from July 1, 2015, through June 30, 2016, and identified seven instances in which the IRS did not properly inform the taxpayer or comply with a particular I.R.C. section or the related IRM requirement.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Taxpayer Designations – Illegal Tax Protester Designation and Similar Designations</b></p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the IRS’s compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.</p>	<p><b>Ref. No. 2017-30-059, Aug. 2017</b></p> <p>The IRS has not reintroduced past Illegal Tax Protester codes or similar designations on taxpayer accounts. However, in reviewing the narrative data entered for approximately 22.1 million taxpayers in the Account Management Services System, TIGTA found that there were 11 instances in which nine employees referred to taxpayers as “Tax Protester/Protestor.”</p>
<p><b>Disclosure of Collection Activities With Respect to Joint Returns</b></p> <p>I.R.C. § 7803(d)(1)(B) (TIGTA requirement)</p> <p>I.R.C. § 6103(e)(8) (IRS requirement)</p>	<p>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.</p>	<p><b>Ref. No. 2017-30-058, Aug. 2017</b></p> <p>IRS management information systems do not separately record or monitor joint filer requests, and there is no legal requirement for the IRS to do so. While TIGTA does not recommend the creation of a separate tracking system, it determined that improvements can be made when receiving disclosures of collection information requests pursuant to either I.R.C. § 6103(e)(7) or (8).</p>
<p><b>Administrative or Civil Actions With Respect to the Tax Collection Practices Act of 1996</b></p> <p>I.R.C. § 7803(d)(1)(G)</p> <p>I.R.C. § 6304</p> <p>RRA 98 § 3466</p>	<p>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.</p>	<p><b>Ref. No. 2017-10-074, Sep. 2017</b></p> <p>TIGTA identified four Fair Tax Collection Practices violations closed in Fiscal Year 2016 that resulted in administrative actions for IRS collection employees. These violations included contacting taxpayers directly without the required consent of the taxpayers’ power of attorney, harassing or abusing taxpayers, and using obscene or profane language with taxpayers during collection-related activities.</p>
<p><b>Denial of Requests for Information</b></p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>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).</p>	<p><b>Ref. No. 2017-30-075, Sep. 2017</b></p> <p>TIGTA reviewed a statistically valid sample of 70 information requests from a population of 2,693 Freedom of Information Act information requests and found 10 (14.3 percent) requests for which disclosure specialists improperly withheld information. Although the IRS properly released thousands of pages from these documents, taxpayer rights may have been violated because the IRS improperly withheld information from the requestors.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Adequacy and Security of the Technology of the IRS</b></p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS's adequacy and security of its technology.</p>	<p>Information Technology Reviews:</p> <p><b>Ref. No. 2017-20-024, June 2017</b></p> <p><b>Ref. No. 2017-20-032, Aug. 2017</b></p> <p><b>Ref. No. 2017-20-039, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-051, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-057, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-067, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-062, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-080, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-089, Sep. 2017</b></p> <p>Security Reviews:</p> <p><b>Ref. No. 2017-20-004, Oct. 2017</b></p> <p><b>Ref. No. 2017-20-029, June 2017</b></p> <p><b>Ref. No. 2017-20-050, Aug. 2017</b></p> <p><b>Ref. No. 2017-20-049, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-061, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-064, Sep. 2017</b></p> <p><b>Ref. No. 2017-20-087, Sep. 2017</b></p>
<p><b>Federal Financial Management Improvement Act of 1996 (FFMIA)</b></p> <p>31 U.S.C. § 3512</p>	<p>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.</p>	<p><b>Ref. No. 2017-10-046, Aug. 2017</b></p> <p>During FY 2016, the IRS made progress on addressing certain aspects of its internal control weaknesses that affect its financial reporting. However, the IRS continues to include limited cost information in its quarterly remediation plans, and as previously recommended, TIGTA continues to believe that including implementation steps associated with the Customer Account Data Engine 2 Transition State 2 (CADE 2 TS2) would improve the remediation plan. The IRS anticipates that it will be unable to fully address the Unpaid Tax Assessments material weakness until implementation of the CADE 2 TS2, but the IRS does not list all the actions needed to fully implement the CADE 2 TS2 in the remediation plan.</p>
<p><b>Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions</b></p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled Drug Control Accounting, dated May 1, 2007.</p>	<p>Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.</p>	<p><b>Ref. No. 2017-10-016, Jan. 2017</b></p> <p>The IRS did not implement TIGTA's prior recommendation to update its performance goals for FY 2017 to reflect prior performance and its own documented methodology. 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 the ONDCP's established criteria.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Government Charge Card Abuse Prevention Act of 2012</b></p> <p>Pub. L. No. 112-194, 126 Stat. 1445 (2012).</p>	<p>Requires TIGTA to report on IRS progress in implementing purchase and travel card audit recommendations.</p>	<p><b>Ref. No. 2017-10-015, Jan. 2017</b></p> <p>The IRS properly identified and reported 21 instances of confirmed purchase card misuse and four instances of potential purchase card misuse pending final agency action. The 21 confirmed purchase card misuse cases reported by the IRS collectively totaled about \$1,250. Additionally, TIGTA reviewed the status of the recommendations related to IRS purchase and travel cards issued over the past five fiscal years (FYs 2012 to 2016) and did not find any open recommendations.</p> <p><b>Ref. No. 2017-10-060, July 2017</b></p> <p>The IRS properly identified and reported 20 instances of confirmed purchase card misuse and two instances of purchase card misuse pending final agency action. The 20 confirmed purchase card misuse cases reported by the IRS collectively totaled \$1,716.</p>
<p><b>Improper Payments Elimination and Recovery Act of 2010 (IPERA)</b></p> <p>31 U.S.C. § 3321</p>	<p>Requires TIGTA to assess the IRS's compliance with improper payment requirements.</p>	<p><b>Ref. No. 2017-40-030, Apr. 2017</b></p> <p>The IRS provided all required improper payment information to the Treasury for inclusion in the Department of the Treasury Agency Financial Report Fiscal Year 2016 with the continued exception of not reporting an overall Earned Income Tax Credit improper payment rate of less than 10 percent. In response to prior TIGTA recommendations, the IRS revised its annual risk assessment process. However, the revised assessment still does not provide a valid assessment of risk of refundable tax credit improper payments.</p>
<p><b>Digital Accountability and Transparency Act of 2014 (DATA Act)</b></p> <p>Pub. L. No. 113-101, 128 Stat. 1124 (2014)</p>	<p>Requires TIGTA to assess the completeness, timeliness, quality and accuracy of data IRS submits to comply with the DATA Act.</p>	<p><b>Ref. No. 2017-10-018, Mar. 2017</b></p> <p>The IRS has made progress in its efforts to implement the requirements of the DATA Act, but much work remains. TIGTA identified areas that require additional attention. Specifically, the IRS did not clearly identify the source for 18 of the 57 data elements or document how the 57 data elements are used in its business processes as required. In addition, the IRS has not finalized the accounting procedures needed to support the posting of transaction-level grant program information in its financial system as required by the DATA Act.</p>

# 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 another 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 IRM) 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 therefor (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 April 1, 2017 – September 30, 2017**

#### **Peer Reviews Conducted of TIGTA’s Office of Audit**

No peer reviews were conducted of TIGTA’s Office of Audit during this reporting period. The last external peer review of the Office of Audit was by the U.S. Department of Homeland Security, Office of Inspector General, and completed in December 2015.

#### **Peer Reviews Conducted by TIGTA’s Office of Audit**

No peer reviews were conducted by TIGTA’s Office of Audit during this reporting period. The last external peer review conducted by the Office of Audit was of the U.S. Department of Homeland Security, Office of Inspector General, and completed in September 2015.

#### **Peer Reviews Conducted of TIGTA’s Office of Investigations**

The U.S. Postal Service’s Office of the Inspector General conducted a peer review of TIGTA’s Office of Investigations during this reporting period.

#### **Peer Reviews Conducted by TIGTA’s Office of Investigations**

No peer reviews were conducted by TIGTA’s Office of Investigations during this reporting period.

#### **Peer Reviews Conducted of TIGTA’s Office of Inspections and Evaluations**

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

#### **Peer Reviews Conducted by TIGTA’s Office of Inspections and Evaluations**

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

# Appendix VI

## Data Tables Provided by the Internal Revenue Service

### Internal Revenue Service Memorandum

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 April 1, 2017 through September 30, 2017. 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 style="text-align: center;"><b>DEPARTMENT OF THE TREASURY</b> INTERNAL REVENUE SERVICE WASHINGTON, D. C. 20224</p> <p style="text-align: center;">HUMAN CAPITAL OFFICE</p> <p style="text-align: center;">October 2, 2017</p> <p>MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p>FROM: Constance L. Weaver Weaver Acting 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 July 19, 2017, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for April 1, 2017, through September 30, 2017.</p> <ul style="list-style-type: none"> <li>• Report of Employee Misconduct by Disposition Groups</li> <li>• Report of Employee Misconduct – National Summary</li> <li>• Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS)</li> </ul> <p>The attached tables contain information about:</p> <ul style="list-style-type: none"> <li>• Alleged misconduct reported to IRS managers</li> <li>• Disposition of the allegations resolved during the period</li> <li>• Status of the inventory as of September 30, 2017</li> </ul> <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 167 Section 1203 allegations; and, resultantly 13 employees were removed. Thirteen (13) employees retired or resigned before a final administrative action by management and four (4) employees were removed for other allegations. In two (2) of the removals, IRS management considered information in a TIGTA investigation. The Commissioner mitigated proposed removals in ten (10) cases. The remaining 127 substantiated allegations are still in the adjudication process.</p>	<p>Please note, some of the figures above do not match the Summary of Substantiated I.R.C. Section 1203 Inquiries Report figures. Protection of tax information is required when there are three or less cases, which are indicated by the asterisk in the report; however, the correct figures are included above.</p> <p>If you have any questions, please contact Sheila Barbee, Associate Director, LR/ER Field Operations at (202) 317-3307.</p> <p>Attachments (3)</p> <p>cc: John A. Koskinen, Commissioner of Internal Revenue Kirsten Wielobob, Deputy Commissioner for Services and Enforcement Jeffrey Tribiano, Deputy Commissioner for Operations Support Nina Olson, National Taxpayer Advocate Ella Christiansen, Executive Director, Equity, Diversity and Inclusion Terry Lemons, Chief, Communications &amp; Liaison Mark Kaizen, Associate Chief Counsel (GLS) Katherine Coffman, Chief Human Capital Officer</p>
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**The Following Tables Are Provided by the IRS.**

## Report of Employee Misconduct by Disposition Groups

Period Covering April 1, 2017 – September 30, 2017

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Totals
REMOVAL (PROBATION PERIOD COMPLETE)	33	68	19	0	120
REMOVAL AT OPM DIRECTION	0	0	0	0	1
PROBATION/SEPARATION	0	175	0	4	179
SEPARATION OF TEMP	0	46	0	0	46
RESIGN., RET., ETC. (SF50 NOTED)	13	26	10	0	49
RESIGN. RET., ETC. (SF50 NOT NOTED)	32	138	50	3	223
SUSP., 14 DAYS OR LESS	71	103	78	0	253
SUSP., MORE THAN 14 DAYS	27	25	22	0	74
INDEFINITE SUSPENSION	0	3	0	0	4
REPRIMAND	35	182	139	0	357
ADMONISHMENT	30	144	413	4	591
WRITTEN COUNSELING	36	118	204	3	361
ORAL COUNSELING	0	23	9	0	32
A D: IN LIEU OF REPRIMAND	4	10	14	0	29
A D: IN LIEU OF SUSPENSION	9	23	27	0	59
CLEARANCE LETTER	49	68	10	0	127
CWA CAUTIONARY LTR	98	179	168	232	677
CWA LETTER	66	74	34	6	180
TERMINATION FOR ABANDONMENT OF POSITION	0	37	0	0	37
CASE SUSPENDED PENDING EMPLOYEE RETURN TO DUTY	0	0	0	0	0
PROSECUTION PENDING FOR TIGTA'S ROI	0	0	0	0	0
CLOSED - SUPPLEMENTAL REQUESTED	0	0	0	0	0
FORWARDED TO TIGTA	0	0	0	0	1
<b>TOTAL</b>	<b>504</b>	<b>1443</b>	<b>1197</b>	<b>256</b>	<b>3400</b>

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

**Note:** Columns containing numbers of two or less and protected by I.R.C. § 6103 are notated with a zero.

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

**Note:** AD is abbreviation for Alternative Discipline

**Extract Date:** October 2, 2017

## Report of Employee Misconduct National Summary

Period Covering April 1, 2017 – September 30, 2017

Inventory Case Type	Open Inventory	Conduct Cases Received	Conduct Issues	Cases Closed		Ending Inventory
				Cases Merged with Other Cases	Non-Conduct Issues	
ADMINISTRATIVE CASE	677	1858	1730	56	95	654
EMPLOYEE CHARACTER INVESTIGATION	50	282	273	6	0	53
EMPLOYEE TAX COMPLIANCE CASE	1123	1241	1261	35	0	1068
TIGTA REPORT OF INVESTIGATION	628	620	592	11	0	645
<b>Total</b>	<b>2478</b>	<b>4001</b>	<b>3856</b>	<b>108</b>	<b>95</b>	<b>2420</b>

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

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

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

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

**Background Investigations** - Any matter involving a New Background Investigation Case (NBIC) investigation into an employee's background that is referred to management for appropriate action.

**Extract Date:** October 2, 2017

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

Period Covering April 1 – September 30, 2017

§ 1203 Violation	*Removals	*Resigned/ Retired	Probation Separation	Removed On Other Grounds	*Penalty Mitigated	In Personnel Process	Total
1203(b)(10): THREAT OF AUD/ PERSONAL	0	0	0	0	0	0	4
1203(b)(4): CONCEALED WORK ERROR	0	0	0	0	0	0	3
1203(b)(6): IRC/IRM/REG VIOL-RETAL	0	0	0	0	0	0	2
1203(b)(8): WILLFUL UNTIMELY RETURN	5	5	0	0	4	67	83
1203(b)(9): WILLFUL UNDERSTATED TAX	6	6	0	0	6	55	75
<b>Total</b>	<b>13</b>	<b>13</b>	<b>0</b>	<b>4</b>	<b>10</b>	<b>127</b>	<b>167</b>

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

**Note:** Columns containing numbers of two or less and protected by I.R.C. § 6103 are annotated with a zero.

\*These cases are included in the totals of the Table entitled “Reports of Employee Misconduct Summary by Disposition.”

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(b)(2) and § 4(a)2 of the Treasury Delegation Order 115-01, January 14, 1999.

**Extract Date:** October 2, 2017

# Glossary of Acronyms

ACTC	Additional Child Tax Credit
AGI	Adjusted Gross Income
AMPN	Application and Master Promissory Note
ASFR	Automated Substitute for Return
BSA	Bank Secrecy Act
CAWR	Combined Annual Wage Reporting
CP	Computer Paragraph
CPA	Certified Public Accountant
CPPA	Critical Position Pay Authority
CSIRC	Computer Security Incident Response Center
CY	Calendar Year
DFS	Digital Forensic Support
DPL	Direct Plus Loan
DRT	Data Retrieval Tool
EIC	Earned Income Credit
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
FAFSA	Free Application for Federal Student Aid
FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FDIC OIG	Federal Deposit Insurance Corporation Office of Inspector General
FDSL	Forensic and Digital Science Laboratory
FFELP	Federal Family Education Loan Program
FISMA	Federal Information Security Management Act
FOIA	Freedom of Information Act
FPS	Federal Protective Service
FTC	Federal Trade Commission
FY	Fiscal Year
HSI	Department of Homeland Security Investigations
HUD	U.S. Department of Housing and Urban Development
I&E	Office of Inspections and Evaluations
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigation
ITIN	Individual Taxpayer Identification Number
NFCU	Navy Federal Credit Union
NGI	Next Generation Identification

OA	Office of Audit
OEP	Office of Employee Protection
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PATH	Protecting Americans from Tax Hikes Act
PEO	Professional Employer Organizations
PII	Personally Identifiable Information
PSA	Public Service Announcements
PTIN	Preparer Tax Identification Number
PY	Processing Year
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
SAM	Software Asset Management
SCP	Streamlined Critical Pay
SIRF	Stolen-Identity Refund Fraud
SSA	Social Security Administration
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TAS	Taxpayer Advocate Service
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year
USCIS	U.S. Citizen and Immigration Services
VA	Department of Veterans Affairs
VAG	VisionQwest Accountancy Group

**Acronyms Used Exclusively in Appendices**

ALERTS	Automated Labor and Employee Relations Tracking System
ARDI	Accounts Receivable Dollar Inventory
CADE 2 TS2	Customer Account Data Engine 2 Transition State 2
CSED	Collection Statute Expiration Date
DATA	Digital Accountability and Transparency Act
DCAA	Defense Contract Audit Agency
FFMIA	Federal Financial Management Improvement Act
FIT	Final Integration Test
FTC	Foreign Tax Credit
FUTA	Federal Unemployment Tax
HINF	High-Income Nonfiler
IBC	International Business Compliance
IGEA	Inspector General Empowerment Act
IPERA	Improper Payments Elimination and Recovery Act
LB&I	Large Business and International
LLC	Limited Liability Company
NFTL	Notice of Federal Tax Lien
ONDCP	Office of National Drug Control Policy
ROTER	Record of Tax Enforcement Results
SB/SE	Small Business/Self-Employed
SBU	Sensitive But Unclassified
TIN	Taxpayer Identification Number
TPP	Transfer Pricing Practice
UIL	Uniform Issue List



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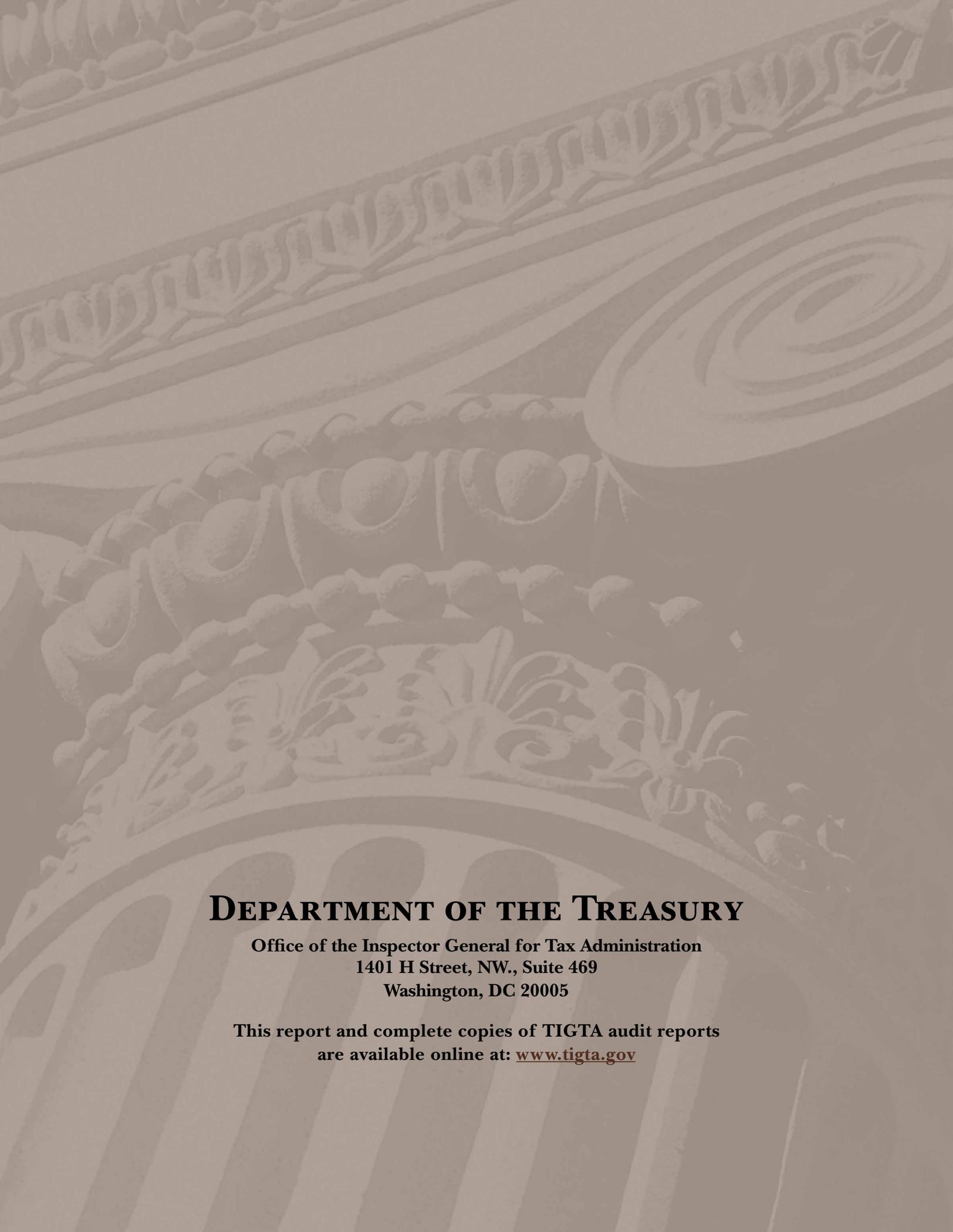
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