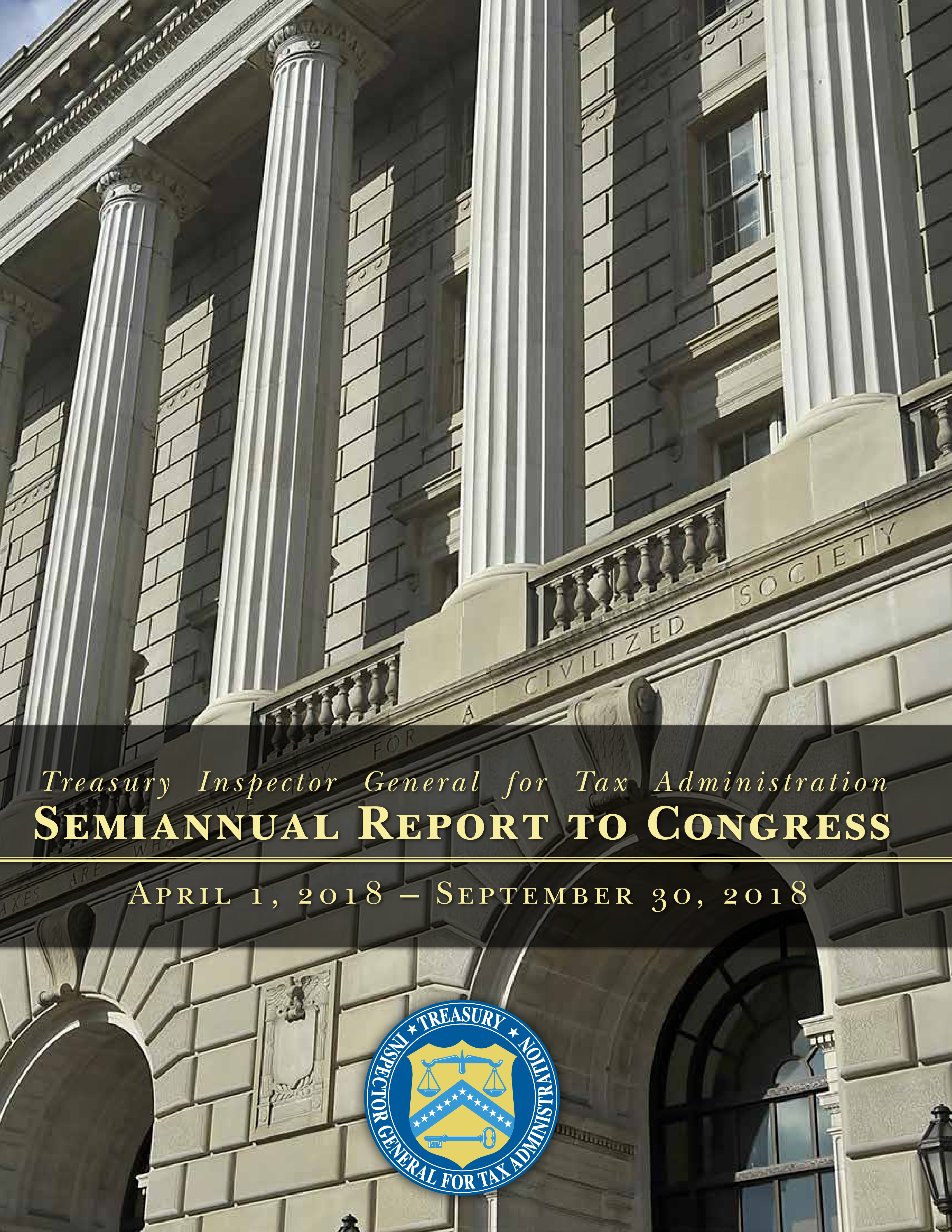


Treasury Inspector General for Tax Administration

Semiannual Report to Congress

April 1, 2018 – September 30, 2018

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.

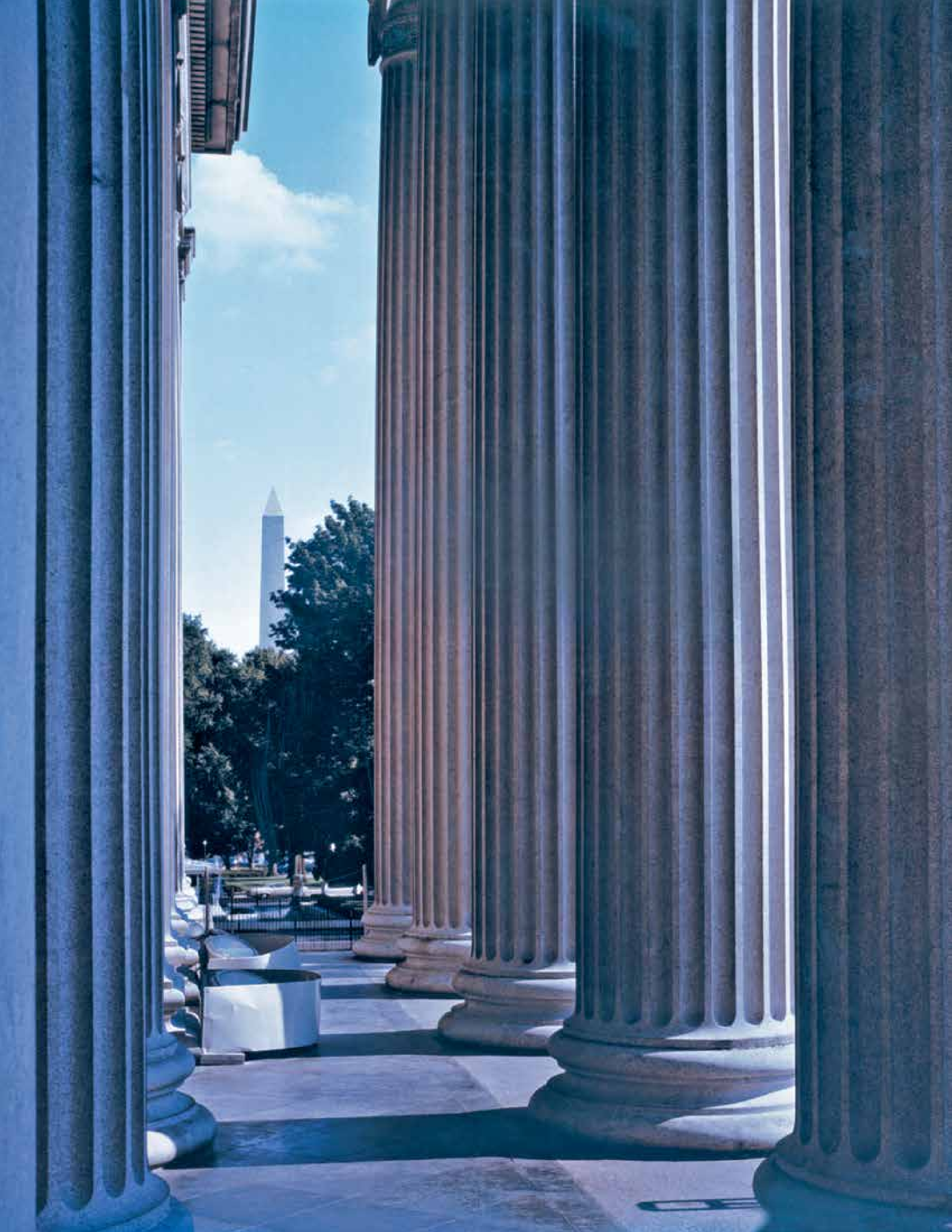
***Value Employees* –** Respect the dignity, contributions, and work-life balance of our employees, and recognize diversity as fundamental to the strength of our organization.

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

Treasury Inspector General for Tax Administration

Semiannual Report to Congress

April 1, 2018 – September 30, 2018



Inspector General's Message to Congress

This year marks the 40th anniversary of the Inspector General Act. Accordingly, I am pleased to submit this Semiannual Report to Congress, summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) during the reporting period April 1, 2018 to September 30, 2018, in carrying out its mission to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of Federal tax administration.

During this reporting period, TIGTA's Office of Audit has completed 54 audits, and its Office of Investigations has completed 1,285 investigations. TIGTA's combined audit and investigative efforts have resulted in the recovery, protection, and identification of monetary benefits totaling more than $2.7 billion.

The IRS impersonation scam has proven to be relentless, as have our efforts to combat it. Since 2013, more than 14,700 taxpayers have lost upwards of $72.8 million to the scam's perpetrators, who impersonate IRS employees in order to trick taxpayers into paying money they do not owe. TIGTA remains committed to investigating and eradicating this massive fraud. In July 2018, 21 criminal participants in this telephone scam were sentenced to terms of imprisonment up to 20 years. And in September 2018, 15 defendants and five India-based call centers were indicted for their alleged involvement. As of September 30, a total of 130 individuals have been charged in Federal court for their roles in the scam. We will not back down from our pursuit of these criminals, and will continue to work with all of our law enforcement partners to bring them to justice.

Meanwhile, the IRS seeks to increase its protection of taxpayer data and its own resources, and TIGTA is actively monitoring these efforts. For example, during this reporting period, TIGTA conducted an audit to evaluate IRS controls designed to authenticate requests received from individual tax preparers who have access to taxpayer information in the course of representing their clients. Furthermore, TIGTA audited IRS's efforts to implement and enforce data protection measures of private contractors participating in its Private Debt Collection Program as well as the IRS's ongoing efforts to detect and prevent business identity theft. TIGTA also completed a review of the IRS data systems outage that occurred on Tax Day, April 17, 2018.

We remain committed to our mission to promote integrity, economy, and efficiency in the administration of Federal tax laws and regulations, and look forward to working with the Administration, Congress, the IRS, and other stakeholders to ensure that our Nation's tax system is more efficient, effective, and fair.

Sincerely,

J. Russell George
Inspector General

Table of Contents

TIGTA's Profile

The Treasury Inspector General for Tax Administration (TIGTA) provides audit, investigative, and inspection and evaluation services that promote economy, efficiency, and integrity in the administration of the Internal Revenue laws. TIGTA also provides independent oversight of matters of the Department of the Treasury (Department or Treasury 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.

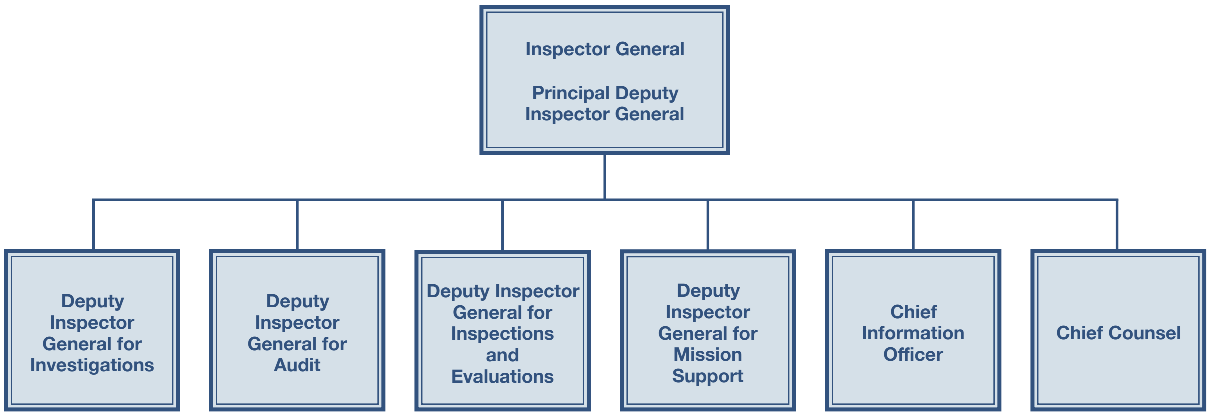
TIGTA oversees all aspects of activity related to the Federal tax system as administered by the IRS. TIGTA protects the public's confidence in the tax system by identifying and recommending strategies for addressing the IRS's management challenges and implementing the priorities of the Treasury Department.

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.

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 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).[1] 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 (DOJ) 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)[2] 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).

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[3]

Twenty-One Individuals Sentenced in Houston for Their Roles in an IRS Impersonation Scam

Between July 18 and July 20, 2018, in the Southern District of Texas, 21 defendants were sentenced for their roles in a conspiracy involving the impersonation of IRS employees. All 21 of the defendants were part of an October 2016 indictment that charged 56 individuals, plus five major call centers located in Ahmedabad, Gujarat, India, with conspiracy to defraud the United States, conspiracy to commit wire fraud, and money laundering conspiracy. Three other coconspirators were sentenced earlier this year. The cumulative total of the prison sentences for these 21 defendants is more than 174 years.

From about January 2012 until about October 2016, the coconspirators participated in a scheme to defraud U.S. residents by misleading them into sending money in connection with a number of different scams. In one of the scams, the coconspirators impersonated IRS officers to defraud U.S. residents by misleading them into believing that they owed money to the IRS and that they would be arrested and fined if they did not pay the alleged back taxes immediately. In another of the scams, the coconspirators impersonated U.S. Citizen and Immigration Services (USCIS) officers to defraud 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.

Miteshkumar Patel, sentenced to 240 months' imprisonment, was a runner and domestic manager of a crew of runners based primarily in Illinois. He is an Indian national with U.S. citizenship. He directed the activities of numerous Illinois-based runners, paid for their business expenses, and provided them with vehicles to drive to various retail stores and banks. He also facilitated their liquidation of GPR cards containing scammed funds at a gas station that he owned in Racine, Wisconsin.

Hardik Patel was sentenced to 188 months' imprisonment. He is an Indian national residing in the United States on a nonimmigrant visa. He was identified as a co-owner and manager of an India-based call center associated with organizational codefendant HGlobal.

Sunny Joshi was sentenced to 151 months' imprisonment, and his U.S. citizenship was revoked. He was identified as a runner operating in the Houston, Texas, area. He communicated extensively with India-based codefendants who were associated with organizational codefendant Call Mantra, and he directed the activities of other runners in the Houston area.

Other sentences ranged from 165 months' imprisonment to three years' probation. In addition to entering the prison sentences, the court filed orders of removal for several of the defendants, who will be deported from the United States upon completion of their prison sentences. The defendants are also jointly and severally liable for $8,970,396.15 in restitution.

3 The facts in the summarized case narratives come from court documents of the respective jurisdictions.

Individual Sentenced to Nearly 20 Years in Prison for IRS Impersonation Scam

On August 9, 2018, in the Middle District of Pennsylvania, Hiteshkumar Patel was sentenced for his role in a scheme involving the impersonation of IRS employees. Patel was indicted for the scheme in June 2017, and in November 2017 he pled guilty to conspiracy to commit wire and mail fraud and aggravated identity theft.

According to the court documents, Patel, a resident of South Abington Township, Pennsylvania, came to the United States in 1995 and became a naturalized citizen in 2004. Patel and his coconspirators contacted individuals by telephone and falsely claimed to represent the IRS. They told the victims that they owed money to the IRS and threatened them with arrest, fines, and imprisonment unless they immediately paid their debts. They instructed the victims to send payments directly to Patel or to one of his coconspirators to satisfy their purported IRS debts.

Patel and his coconspirators also accepted online loan applications and fraudulently caused applicants to believe that they had to pay fees in advance in order to receive guaranteed loans. In some cases, they falsely told the loan applicants that their prior IRS debts had to be satisfied before a loan could be approved.

The scheme perpetuated a stereotypical fear of Government agencies. Patel's victims feared monetary sanctions and arrest by the IRS. The investigation identified 634 victims with total losses of $934,406.77 directly attributed to the conspiracy. The scheme spanned 18 States and crossed international borders to the country of India. Patel and his coconspirators preyed on vulnerable victims with limited financial resources.

Patel was sentenced to 234 months in prison followed by three years of supervised release. He was also ordered to pay $896,112.33 in restitution to the victims.

Examples of High-Profile Reports by the Office of Audit

Programming Errors and Deficiencies in Tax Examiner Screening Resulted in Some Health Coverage Tax Credit Claims Being Erroneously Processed

The Health Coverage Tax Credit (HCTC) is a refundable tax credit that covers 72.5 percent of the cost of qualified health insurance premiums for eligible individuals and qualified family members. Individuals can claim the HCTC in three ways: annually on their tax return, as advance monthly payments, or a combination of these two methods.

TIGTA initiated this audit because its prior report on the IRS's 2016 Filing Season identified errors in processing tax returns that claimed the HCTC. This review evaluated the IRS's implementation of the HCTC advance payment process and the accuracy of its processing of tax returns claiming the credit.

The IRS implemented processes and procedures in response to legislation retroactively extending the HCTC through Calendar Year (CY) 2019. These included setting eligibility indicators on the tax accounts of individuals and establishing a systemic advance monthly payment process. However, programming and tax examiner errors continue to result in the erroneous processing of some HCTC claims. TIGTA found that 3,839 (9.5 percent) of the 40,227 Tax Year (TY) 2016 tax returns filed between January 21 and July 6, 2017, that contained HCTC claims were erroneously processed. Because of these errors, it is possible that taxpayers did not receive HCTCs to which they were entitled or that they were erroneously allowed HCTCs to which they were not entitled. For example, tax examiners failed to refer 2,972 returns with HCTC claims totaling $4,362,924 to the Examination function for review, even though those returns met Examination function referral criteria.

Consistent screening processes are needed to identify erroneous HCTC claims. The Error Resolution Unit's screening process was not consistent with the process used by the Examination function to identify erroneous claims. As a result, HCTC claims on 343 tax returns, totaling $951,648, were erroneously paid to ineligible taxpayers. Finally, TIGTA identified HCTC claims totaling $128,807 that were paid by the IRS on 45 returns filed by individuals who included a Form W-2, *Wage and Tax Statement,* indicating that they were employed.

TIGTA recommended that the IRS:

- Ensure that tax examiners follow procedures to refer potentially erroneous HCTC claims to the Examination function;
- Review 2,222 tax returns for which tax examiners erroneously disallowed the claim without first corresponding with the taxpayer;
- Confirm that programming changes are implemented to refer to the Examination function all returns filed by taxpayers who do not provide support for their HCTC claims;
- Review 664 returns for which tax examiners erroneously input the HCTC claim in computers;
- Develop procedures to identify tax examiner errors related to processing HCTC claims;
- Implement procedures to identify HCTC claims on returns filed by potentially ineligible individuals;
- Review the 343 returns for which an ineligible individual's HCTC claim was granted; and

- Refer to the Examination function the 45 returns that claimed the HCTC and had an attached Form W-2.

The IRS agreed with all of TIGTA's recommendations.
Reference No. 2018-40-035

Improved Procedures Are Needed to Prevent the Fraudulent Use of Third-Party Authorization Forms to Obtain Taxpayer Information

Taxpayers can grant a power of attorney to individuals (*i.e.*, representatives) who are given the authority to represent them before the IRS. A representative can be an attorney, certified public accountant, or enrolled agent. Internal Revenue Code § 6103(c) also allows taxpayers to authorize a designee to review and receive their returns and return information. This audit was initiated to evaluate the IRS's controls over the authentication of requests received from individuals seeking to represent taxpayers and access taxpayer information.

TIGTA found that IRS management had not implemented sufficient processes and procedures to authenticate the validity of Forms 2848, *Power of Attorney and Declaration of Representative*, and Forms 8821, *Taxpayer Information Authorization*. Tax examiner reviews of these forms did not include steps to verify that a legitimate taxpayer had submitted or signed the form to authorize access to his or her tax information. Based on the IRS's statistically valid sample, TIGTA estimated that the IRS had at least one unauthorized request form for each of 1.1 million taxpayers who had an authorization in the Centralized Authorization File (CAF).

The IRS did not protect 300 taxpayers after identifying that their Taxpayer Identification Numbers (TIN) were obtained by fraudsters. The IRS should have placed the TINs on its Dynamic Selection List[4] to monitor their use on future tax returns submitted. TIGTA also determined that the IRS did not take sufficient action to prevent some taxpayer refunds from being erroneously issued to representatives. Finally, TIGTA found that tax examiners were not following internal guidelines that limit the assignment of one CAF number to one representative per location.

TIGTA recommended that the IRS:

- Develop a confirmation letter program to ensure that taxpayers had authorized the third-party access;
- Revoke the authorizations for those representatives and designees that taxpayers had not authorized;
- Develop a process to ensure that all TINs associated with confirmed fraudulent CAF authorizations are forwarded to the appropriate office;
- Develop procedures for all functions involved with fraudulent authorization requests and stolen CAF numbers to timely report their findings to CAF management;
- Remove the refund indicator from all 72,095 authorizations that were processed prior to January 2013;
- Ensure that tax examiners follow guidelines to limit the issuance of CAF numbers to one per representative/designee at each office; and

4 A list of TINs that the IRS identified as stolen in a data breach and, thus, at risk of tax-related identity theft.

- Correspond with representatives and designees assigned multiple CAF numbers to inform them that they are permitted to have only one CAF number per location.

The IRS agreed with six of TIGTA's recommendations and partially agreed with the recommendation to correspond with representatives and designees assigned multiple CAF numbers. IRS management plans to correspond only with those individuals it identifies as having used multiple CAF numbers to determine if there is a need for multiple numbers and identify those that can be removed.
Reference No. 2018-40-062

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 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 Commissioner of the IRS, and other key stakeholders.

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

Audit Emphasis Areas for April 2018 Through September 2018

- Security Over Taxpayer Data and Protection of IRS Resources
- Identity Theft and Impersonation Fraud
- Providing Quality Taxpayer Service and Expanding Online Services
- Implementing Tax Law Changes
- Improving Tax Compliance
- Impact of Global Economy on Tax Administration
- Achieving Program Efficiencies and Cost SavingsAchieving Program Efficiencies and Cost Savings

Security Over Taxpayer Data and Protection of IRS Resources

The IRS relies extensively on its computer systems to support both its financial and mission-related operations. These computer systems collect and process large amounts of taxpayer data. However, the threat landscape continues to evolve, and bad actors are persistent in their pursuit of monetary gain and identity information.

The IRS also shares sensitive data with various outside entities, including other Federal, State, and local agencies; financial institutions; and contractors for tax administration purposes. It must ensure that applicable protocols are being used to fully protect sensitive information.

Review of Questionable Background Investigations Performed by the Office of Personnel Management's Former Contractor U.S. Investigations Services, Inc.

U.S. Investigations Services, Inc. (USIS), a former contractor of the Office of Personnel Management (OPM), was alleged by the DOJ to have provided to the Federal Government incomplete reviews of approximately 665,000 background investigations from March 2008 through September 2012. In addition, the DOJ prosecuted several USIS employees under contract to conduct background investigations on behalf of OPM's Federal Investigative Services for making false representations regarding their work on background investigations, such as indicating that interviews had been conducted or records had been obtained when in fact they had not been.

Incomplete investigations could have resulted in the employment or retention of unsuitable individuals in positions with access to IRS facilities, systems, and sensitive information. This audit assessed the impact of OPM background investigations conducted by USIS on the IRS.

The OPM provided TIGTA with a list of 3,498 USIS background investigations performed between March 2008 and September 2012 on IRS employees or appointees who were alleged by the DOJ to have received incomplete reviews. Of these 3,498 background investigations, IRS records indicated that, as of October 2017, 2,058 were of individuals who were still employed by the IRS.

TIGTA's review of a statistical sample of 76 USIS background investigations conducted on IRS employees or appointees as of February 2016 found that documentation was lacking to support the investigative work represented as completed by USIS in 75 (99 percent) cases. According to the OPM, the policies during the time frame USIS-conducted background investigations took place did not include a requirement that documentation of certain types of investigative actions be retained in the investigative files. However, the OPM concluded that two of the 76 IRS Reports of Investigation did not meet OPM investigative standards. TIGTA determined that IRS procedures did not include a process to assess the quality or completeness of background investigations provided by the OPM.

TIGTA's independent review of publicly available records for the statistical sample generally did not identify unreported incidents or derogatory information associated with OPM's suitability factors for Federal employment or security clearance access. However, based on the prior issues with USIS background investigations and the general lack of support in the sampled files reviewed, the audit raised significant concerns about the quality and completeness of IRS employee investigations performed by USIS.

As a result, TIGTA recommended that the IRS:

- Prioritize the reinvestigation of any employee whose most recent background investigation was performed by USIS during the period March 2008 through September 2012; and

- Enact formal procedures to incorporate the guidelines developed by the Director of National Intelligence to assess the quality and completeness of background investigations provided by the OPM.

The IRS agreed with both of TIGTA's recommendations.
Reference No. 2018-10-021

Active Directory Oversight Needs Improvement and Criminal Investigation Computer Rooms Lack Minimum Security Controls

Active Directory is a Microsoft Windows® domain service that blends authentication, authorization, and directory technologies to create enterprise security boundaries that are widely distributable and highly scalable. Security weaknesses in Active Directory could allow unauthorized personnel to gain access to critical IRS servers, applications, and account management. Therefore, TIGTA initiated this audit to review the IRS's Active Directory Technical Advisory Board and evaluate the effectiveness of Criminal Investigation's (CI) Active Directory implementation.

TIGTA previously recommended that the IRS establish an agencywide Active Directory governing body that finalizes and enforces forest design criteria, develops standards, oversees trusts, and ensures that unauthorized forests or domains are not implemented. Although the IRS agreed with this recommendation, the governing body created in May 2013 is not providing agencywide Active Directory oversight.

The review of CI's implementation of Active Directory found that computer rooms in CI field offices lacked necessary physical security controls. Specifically, TIGTA's review identified a total of 88 physical security control weaknesses related to Limited Areas,[5] two-factor authentication, control and safeguarding lock combinations, fire extinguishers, temperature and humidity controls, emergency power shutoff switches, and backup power sources.

The CI Active Directory architecture lacks necessary logical security controls. For example, the operating systems on the domain controllers are only 64 percent compliant with security requirements, while 295 service accounts and 1,751 user accounts are improperly configured. TIGTA also found that the IRS's Windows Policy Checker is out of date and uses three-year-old technical guidelines to conduct its analysis.

TIGTA recommended that the IRS:

- Ensure that the Active Directory Technical Advisory Board is providing agencywide oversight and updating its charter;
- Complete a cost analysis between relocating CI assets to IRS computer rooms and upgrading CI computer rooms to meet Federal and internal security standards, then implement the more cost-effective solution;
- Ensure that CI computer rooms are immediately updated to comply with Federal and internal security requirements relating to Limited Areas, key and cipher lock combination controls, and standalone fire extinguishers while a cost-effective solution regarding the computer room location is identified and implemented;

5 An area in a building to which access is limited to authorized personnel only. All who access a Limited Area must have a verified official business need to enter.

- Ensure that local personnel are properly trained;
- Ensure that applications used as compliance checkers follow up-to-date guidelines;
- Ensure that Active Directory user accounts comply with internal policy; and
- Ensure that user accounts and service accounts are appropriately configured.

The IRS agreed with all of TIGTA's recommendations.
Reference No. 2018-20-034

Private Collection Agency Security Over Taxpayer Data Needs Improvement

The IRS shares sensitive taxpayer data with private collection agencies (PCA) for tax administration purposes. IRS and Federal guidelines require that sensitive data be protected during transmission and at the private agencies' sites to prevent unauthorized access or disclosure. The Fixing America's Surface Transportation Act[6] mandates the use of qualified tax collection contractors to collect inactive tax receivables. The IRS has contracted with four PCAs to collect tax receivables on behalf of the Government. This audit was initiated to evaluate the data protection measures of the PCAs participating in the IRS's private debt collection (PDC) program.

The PCAs established secure environments for housing taxpayer data that included access and control policies for managing taxpayer data, procedures for employees who telework, and systems access logs that are monitored and reviewed to prevent employee browsing of taxpayer data. However, the IRS was unaware that one PCA could not provide monthly vulnerability scans of systems containing taxpayer data, and three of the four PCAs were not timely remediating critical and high-risk vulnerabilities within the required 30 calendar days. PCA reporting requirements should have been updated to ensure that the IRS was apprised of the risk associated with the PCAs' vulnerabilities.

The IRS did not enforce Publication 4812, *Contractor Security and Privacy Controls,* requirements for the cell phone use policy specific to IRS data, nor did it ensure that data were encrypted before they were transferred to the PCAs. In addition, three of the four PCA mailrooms where taxpayer correspondence and payments are received were not included in the IRS's annual security assessments. One PCA did not have a secure mail processing area for payments and did not secure misdirected payments prior to sending them to the IRS. One PCA did not back up video footage, and three PCAs did not back up their video footage to an offsite location.

TIGTA recommended that the IRS:

- Update and enforce Publication 4812 to remediate critical and high-risk vulnerabilities within 30 calendar days;
- Clarify all devices that should have vulnerability scans;
- Ensure timely communication of scan results to the IRS;
- Require that policies be specific on mobile devices connected to systems containing sensitive information and include a mechanism to enforce the policy;
- Perform annual assessments of the PCAs' mailrooms;

6 Pub. L. No. 114-94 (2015).

- Perform follow-up assessments for any deficiencies identified;
- Implement stronger security controls over mailrooms that receive taxpayer correspondence and payments, including enhanced security camera coverage to record all sensitive areas; and
- Ensure that all taxpayer data being stored on the system prior to being transferred to the PCAs are encrypted.

IRS management agreed with six of the eight recommendations and partially agreed to the other two. For those two recommendations, the IRS did not address the enforcement of vulnerability remediation and the inclusion of all devices when scanning for vulnerabilities. We believe that the IRS should complete these items.
Reference No. 2018-20-039

Management Controls Should Be Strengthened to Improve Hardware Asset Inventory Reliability

The Service Asset and Configuration Management organization's Hardware Asset Management office is responsible for providing enterprise-wide oversight, coordination, and guidance on hardware asset management. Failure to timely update asset inventory records impedes the IRS's ability to timely detect the loss, theft, or misuse of Government property. Lack of controls over hardware assets increases the risk of unauthorized access to taxpayer or other sensitive information. This audit evaluated the IRS's management controls over its information technology hardware asset inventory.

TIGTA found that the IRS has taken steps to improve its hardware asset management by revising the *Hardware User Guide* and continuing to look for opportunities to implement technologies and automation into its hardware asset inventory processes. The IRS verified 90.6 percent of its Class A assets (*e.g.*, desktop and laptop computers and servers) and Class B assets (*e.g.*, smartphones). Specifically, the IRS verified 226,947 of 250,520 assets. This was short of its Fiscal Year (FY) 2017 inventory objective of a 95 percent or better certification rate.

While the certifying officials returned signed *Certification Letters* acknowledging their commitment to make all attempts to find unverified and missing assets, they only verified an additional 7,095 (23.1 percent) of the 30,668 initially unverified and missing hardware assets during the reconciliation period, leaving a balance of 23,573 unverified and missing assets. During site visits to nine IRS locations, TIGTA was able to verify unverified and missing assets by physically locating or otherwise accounting for 54 (41.5 percent) of 130 hardware assets selected for review.

The IRS did not ensure that all hardware assets were controlled in the Knowledge Incident/Problem Service Asset Management–Asset Manager (KISAM-AM) module. TIGTA identified 17 of 102 hardware assets selected for review that were not properly controlled.

Furthermore, certifying officials did not always ensure that the necessary steps were taken to locate missing hardware assets prior to reporting them as lost. TIGTA located three of 40 hardware assets selected for review that the IRS had reported as lost. In addition, the IRS found an additional 95 of 2,429 hardware assets that it had previously reported as lost to TIGTA's Office of Investigations.

TIGTA recommended that the IRS:

- Review and update the existing *Hardware Asset Management Inventory Certification Plan* and reconciliation process to improve the compliance, accountability, and participation of all asset inventory owners and stakeholders;
- Ensure that newly acquired assets are timely added into the KISAM-AM module by revising the current asset acquisition and receipt process to ensure the timely delivery of required vendor reporting and to improve the accountability of personnel responsible for the receipt and acceptance process; and
- Direct certifying officials to ensure that sufficient research is properly conducted to locate missing hardware assets prior to reporting them as lost.

The IRS agreed with all of TIGTA's recommendations.
Reference No. 2018-20-041

Review of the System Failure That Led to the Tax Day Outage

The filing season, defined as the period from January 1 through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns. If the tax processing system fails, taxpayers may lose confidence in the IRS's ability to administer the tax code. This audit was initiated to review the IRS systems outage that occurred on Tax Day, April 17, 2018, and identify solutions to prevent future disruptions.

On the last day of the 2018 Filing Season (April 17, 2018), the IRS experienced a storage outage due to a firmware bug[7] that caused a storage array[8] to fail. As a result, 59 tax systems, including the Modernized e-File system, were unavailable for about 11 hours. The IRS's Computer Security Incident Response Center found no evidence of any breach or cyberthreat activity related to the outage. The IRS restored mainframe operations by the afternoon of the day the outage occurred and processed almost 4 million tax returns before midnight.

In June 2017, International Business Machines (IBM) initially discovered the firmware bug associated with the IRS Tax Day outage and developed a fix, made publicly available in a November 2017 microcode bundle. In December 2017, the IRS agreed with the contractor's recommendation to remain on the older microcode bundle for the 2018 Filing Season because it was considered more stable. In January 2018, IBM product engineers developed a script for another client that experienced an outage due to this firmware bug. However, prior to the IRS outage, IBM did not provide the IRS with any details regarding the other client's outage or the availability of a script that would have prevented the Tax Day outage.

While the response team's substantial efforts allowed the IRS to resume tax processing operations the same day, improvements are needed to help mitigate or prevent outages. The "lessons learned" process lacked an overall strategy to consolidate multiple action plans, and monthly microcode bundle meetings had no meeting minutes or documentation of decisions that were made. The current Tier 1 storage environment, with an average equipment age of less than three years, hosted a portion of core

7 An error or defect in the fixed program that internally controls an electronic device.
8 A data storage system that is used for block-based, file-based, or object storage.

tax processing data. However, it did not have an automatic failover or built-in redundancies and was a single point of failure.

TIGTA also found that the Enterprise Storage Services contract was not meeting business needs. During the Tax Day outage, the contractor failed to meet several service level objectives, and this failure required the contractor to pay liquidated damages to the Government. The contract also lacked detailed service-level objectives for performance monitoring and incident management.

TIGTA recommended that the IRS:

- Document lessons learned and implement a corrective action plan;
- Formalize the monthly microcode bundle meetings;
- Ensure that decisions not to install microcode bundle updates are documented and approved; and
- Seek liquidated damages from the contractor and make modifications to the Enterprise Storage Services contract.

The IRS agreed with all of TIGTA's recommendations.
Reference No. 2018-20-065

Identity Theft and Impersonation Fraud

Identity theft affects not only individuals but also businesses. The IRS defines business identity theft as creating, using, or attempting to use businesses' identifying information without authority to claim tax benefits.

Additional Actions Can Be Taken to Further Reduce Refund Losses Associated With Business Identity Theft

Business identity-theft patterns are constantly evolving. Consequently, the IRS needs to continually adapt its detection and prevention processes. This audit was initiated to determine the effectiveness of the IRS's ongoing efforts to detect and prevent business identity theft.

Since TIGTA's first business identity-theft report was issued in September 2015, the IRS has created 25 business identity-theft filters and three dynamic selection lists to identify potential business identity-theft returns. For Processing Year (PY) 2017, these filters identified 20,764 business returns with characteristics of identity theft and associated refunds totaling $2.2 billion.

However, TIGTA found that certain types of tax returns were not being evaluated for potential identity theft, and that, for PY 2017, 15,127 returns, with refunds totaling more than $200 million, would have been identified as potentially fraudulent if current business identity-theft filters included an evaluation of these types of tax returns.

TIGTA also found that only 220 of 5,133 Employer Identification Numbers (EIN) on the IRS's *Suspicious EIN Listing* had the associated tax accounts locked. Although the IRS issued internal guidelines requiring that, after January 2017, tax accounts associated with bogus/fictitious EINs be locked, these guidelines were not consistently being followed. Moreover, the IRS removed 1,097 EINs from the *Suspicious EIN Listing* after completing a systemic analysis of filing and payment history.

However, TIGTA's more in-depth analysis identified characteristics that indicate many of the EINs should not have been removed.

Some business identity-theft cases were not accurately processed by the IRS. TIGTA's statistically valid sample revealed that 21 (23 percent) of the 91 cases reviewed had not been accurately processed. Consequently, TIGTA estimated that 188 cases may have been inaccurately processed. In addition, actions need to be taken to protect refunds associated with confirmed business identity theft from being erroneously released. Upon review of the 872 tax returns that the IRS had identified as identity-theft returns in PY 2016, TIGTA found that refunds totaling more than $61 million had been released in error.

TIGTA made 10 recommendations to improve the identification of business identity theft, including the following:

- Expanding the use of business identity-theft filters for other return types;
- Reviewing and updating the *Suspicious EIN Listing* on a periodic basis;
- Ensuring that all EINs deemed to be bogus or fictitious are locked;
- Developing processes and procedures to ensure that tax examiners accurately process business identity-theft cases; and
- Developing processes to ensure that refunds associated with PY 2016 identity- theft tax returns remain frozen.

The IRS agreed with eight of TIGTA's recommendations and partially agreed with the other two. It did not agree that all of the accounts that we identified should be locked. The IRS plans to lock accounts only when there are clear indications of identity-theft fraud.
Reference No. 2018-40-061

Providing Quality Taxpayer Service and Expanding Online Services

As a result of Hurricanes Harvey, Irma, and Maria, the President signed major disaster declarations for Florida, Georgia, Louisiana, Puerto Rico, the Seminole Tribe of Florida, South Carolina, Texas, and the U.S. Virgin Islands. Following major disasters and emergencies, taxpayers and tax practitioners may require tax relief to enable them to meet their tax obligations for filing returns or paying taxes.

Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria

More than 49 million individuals and 19 million businesses were eligible for disaster tax relief following Hurricanes Harvey, Irma, and Maria. Such tax relief includes postponing the date to file tax returns and accepting late tax payments that have an original or extended due date that falls within the postponement period, and may even provide that penalties and interest will not accrue on tax returns or payments with an original or extended due date that falls within the postponement period.

TIGTA conducted this audit to assess the IRS's efforts to assist victims of these hurricanes and found that the IRS coordinated its efforts to provide tax relief to individuals and businesses. Examples included identifying areas affected by the disasters and distributing an internal disaster relief memorandum for each disaster declaration. These memoranda provided key IRS functions with a summary of the tax relief that should have been provided to the affected taxpayers.

The IRS also timely and correctly placed disaster relief freeze codes on 68,635,299 (99 percent) of the 68,733,105 eligible taxpayers' accounts. These codes allowed the IRS to provide special processing related to any payment or to interest relief granted for a geographic area. The IRS provided tax relief for affected taxpayers until January 31, 2018. However, the IRS extended the tax relief dates for Puerto Rico and the U.S. Virgin Islands to June 29, 2018.

In addition, the IRS restored service to taxpayers in areas affected by the hurricanes. The hurricanes affected all counties in Florida, multiple counties in Texas, the U.S. Virgin Islands, and Puerto Rico. Taxpayers in these areas faced unique challenges as they attempted to meet their tax obligations, particularly if English was their second language. IRS management indicated that they monitored call volumes on various telephone lines and, depending on such factors as the time of year, staffing availability, and employee skill levels, had some flexibility to reassign assistors to work Spanish applications in the event that the call volume increased.

During TIGTA's review, IRS management indicated that services at Taxpayer Assistance Centers and Volunteer Income Tax Assistance/Tax Counseling for the Elderly sites that had been affected by the hurricanes were restored and made available to assist taxpayers.

TIGTA also found that the IRS postponed examination activities for 46,570 (99.5 percent) of the 46,819 individuals and for 5,493 (99.3 percent) of the 5,527 businesses under examination at the time of the hurricane strike dates. The IRS also postponed collection activities for 1,723,389 (99.9 percent) of the 1,723,695 individuals and for 403,792 (99.9 percent) of the 403,805 businesses in collection status at the time of the hurricane strike dates.

No recommendations were made in this report; however, TIGTA provided IRS management an opportunity to review and comment on the draft report. IRS management provided technical comments that were incorporated as appropriate.
Reference No. 2018-40-049

Implementing Tax Law Changes

The Tax Cuts and Jobs Act of 2017 (TCJA)[9] made significant changes to the tax code affecting individuals, businesses, and tax-exempt organizations. The tax provisions contained in this legislation are intended to provide relief to American families and make American businesses more competitive. The Joint Committee on Taxation estimated a net reduction in tax of almost $1.5 trillion for FYs 2018 through 2027.

Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts

The TCJA, which the President signed into law on December 22, 2017, contains 119 provisions that the IRS administers and that affect both domestic and international taxes. This audit assessed the IRS's actions to implement this law.

The IRS's Legislative Affairs function monitored the pending legislation to identify provisions that affected the IRS and informed the various IRS operating divisions (Wage and Investment, Small Business and Self-Employed (SB/SE), Large Business and International, and Tax Exempt/Government Entities Divisions) so that they could assess how to handle the implementation. Once the law was enacted, the IRS immediately began the task of implementing these provisions.

The IRS established a multifaceted oversight structure to coordinate implementation activities among the various IRS operating divisions. This structure included an Executive Steering Committee led by the Acting IRS Commissioner, the Tax Reform Implementation Office, and the Tax Reform Implementation Council.

The IRS worked with the Department of the Treasury and estimated that implementation of the TCJA would cost approximately $397 million and would include the hiring of an estimated 1,734 full-time equivalent positions over the next two calendar years.

In addition, the IRS took adequate steps to develop the new tax withholding tables. The TCJA included provisions that made significant changes to income tax rates, income tax deductions and credits, and Federal income tax withholding. The IRS, in conjunction with the Department of the Treasury, designed the TY 2018 withholding tables to work with an employee's existing Form W-4, *Employee's Withholding Allowance Certificate*, to minimize potential burden on employees and employers.

Finally, the IRS also updated its online withholding calculator on www.IRS.gov to work with the revised tax tables to provide taxpayers with the ability to estimate their tax liability and withholding under the new law. The calculator also provided taxpayers with a suggestion as to the number of withholding allowances they should claim for the remainder of TY 2018.

This report was prepared to provide information only. Therefore, no recommendations were made in the report.
Reference No. 2018-44-027

9 Pub. L. No. 115-97. Officially known as "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for Fiscal Year 2018."

Improving Tax Compliance

One of the IRS's key responsibilities is to ensure that taxpayers understand and meet their tax responsibilities. This is crucial for the IRS in its effort to encourage voluntary compliance with the tax laws. In an effort to lower the Tax Gap (defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year), the IRS identifies questionable tax returns to determine if any adjustments to the information reported on the tax returns are needed. In addition, the IRS issues notices and contacts taxpayers to collect delinquent taxes. If necessary, the IRS takes enforcement action, such as filing liens and seizing assets, to collect the taxes.

Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited

The Joint Committee on Taxation has estimated that PDC would yield approximately $2.4 billion in additional revenue through FY 2025. Two prior IRS attempts at using the PCAs did not succeed. Therefore, this audit was initiated to evaluate the IRS's planning and implementation of the PDC program as well as initial program results.

TIGTA found that the IRS deployed the PDC program on time and met many key program milestones. IRS personnel developed policies and procedures for the PCAs, as well as program metrics to gauge their performance.

As of May 31, 2018, total program revenue ($56.62 million) was approximately $1.3 million more than costs ($55.33 million). However, as of June 2018, the four PCAs collected just 1 percent of the $4.1 billion assigned. A study commissioned by the collection industry trade association showed that the national collection average for CY 2016 was 9.9 percent. A possible cause of the low collection yield was the age of the cases being assigned. TIGTA determined that the average age of cases assigned to the PCAs was 3.97 years. Such aged accounts were generally thought to be nearly uncollectible. In addition, some IRS policies may have been harmful to taxpayers, such as:

- A complaint process that was dependent on private debt collectors self-reporting;
- The absence of a significant coordinating function, *i.e.*, a referral unit, to ensure that only appropriate cases were sent to the PCAs;
- A PDC program communication strategy that conflicted with and contradicted other IRS communications regarding tax scams; and
- Authentication procedures that needlessly exposed taxpayers to risk.

Other IRS policies may also have presented risks to tax compliance, such as:

- Some taxpayers who could pay only a portion of what they owed would be ignored by the IRS;
- There were no consequences for taxpayers who appeared to have willfully failed to pay;

- The PCAs were being left to address subsequent noncompliance (such as the failure to file a tax return when another tax liability is due), and 73 percent of taxpayers whose accounts were assigned to the PCAs had not filed a 2016 tax return;
- Some payment terms did not comply with the letter of the law;
- Inventory assignment practices did not fully consider case characteristics, such as a taxpayers' income (for example, 54 percent of taxpayer accounts assigned to a PCA had low-income indicators on their accounts); and
- The IRS and the PCAs did not share taxpayer contact information.

TIGTA made several recommendations to improve program efficiency and protection of taxpayer rights. Although the IRS took some corrective actions during the audit, IRS management disagreed with most of the recommendations. TIGTA believes that the IRS's lack of responsive actions will lead to increased taxpayer burden and negatively affect taxpayer service, rights, and program revenue. **Reference No. 2018-30-052**

The IRS's Bank Secrecy Act Program Has Minimal Impact on Compliance

The Currency and Foreign Transactions Reporting Act of 1970 requires U.S. financial institutions to assist U.S. Government agencies in detecting and preventing money laundering and to assist U.S. persons in reporting foreign bank and financial accounts.[10] The law has been amended several times and is now known as the Bank Secrecy Act (BSA). The IRS received delegated authority to enforce the BSA's criminal provisions and examine certain nonbank financial institutions. The IRS also has authority to examine trades and businesses for compliance with Form 8300, *Report of Cash Payments Over $10,000 Received in a Trade or Business*, under Titles 26 and 31 of the U.S. Code and authority to assess penalties under Title 26. However, the Financial Crimes Enforcement Network (FinCEN) retains the final authority to impose Title 31 civil penalties. This audit was initiated to evaluate the impact of the IRS's compliance efforts related to its delegated authority under the BSA.

The IRS's SB/SE Division conducts BSA compliance activities through its Specialty Examination function, which has a dedicated BSA Program. TIGTA reviewed a statistically valid random sample of 140 compliance cases from a population of 24,212 closed cases worked by the BSA Program for FYs 2014 through 2016 and found that 105 (75 percent) were closed with 383 Title 31 violations in which the respective business only received a letter citing the violations found. For the same fiscal year period, TIGTA found that: (1) referrals to FinCEN of Title 31 penalty cases go through lengthy delays and have little impact on BSA compliance; (2) the BSA Program spent about $97 million to assess approximately $39 million in penalties; and (3) while referrals were made to CI, most of the investigations were declined and less than half of the cases were accepted.

10 Currency and Foreign Transactions Reporting Act, Pub. L. No. 91-508, Title II, 84 Stat.1118 (1970) (codified as amended at 31 §§ 321, 5311–5314, and 5316–5322). Part II of the BSA is cited as the Currency and Foreign Transactions Reporting Act. It is codified now at 31 U.S.C., Money and Finance, Chapter 53, Monetary Transactions, Part II, *Records and Reports on Monetary Instruments Transactions.* The parts of the BSA for which IRS has responsibilities are 31 U.S.C. §§ 5311 through 5332, except § 5315. The Secretary of the Treasury has delegated the authority to administer Title II of the BSA to the Director of the Financial Crimes Enforcement Network.

Additionally, a September 2016 TIGTA report[11] addressed the need for the IRS to incorporate BSA Program personnel in developing its virtual currency strategy; however, the IRS has still not effectively used the BSA Program in this area. TIGTA also found that until June 2017, the BSA Program did not require Publication 1, *Your Rights as a Taxpayer*, as a required enclosure to notify taxpayers of their rights when initiating a Form 8300, Title 26 examination, and some examiners still are unaware of the change that requires taxpayers to be notified of their rights.

TIGTA recommended that the IRS:

- Coordinate with FinCEN on the authority to assert Title 31 penalties or reprioritize resources to more productive work;
- Leverage the BSA Program's Title 31 authority and annual examination planning in the development of the IRS's virtual currency strategy;
- Notify examiners of new appointment letter enclosures that include Publication 1;
- Evaluate the effectiveness of the newly implemented review procedures for FinCEN referrals; and
- Improve the process for referrals to CI.

The IRS agreed with four of the five recommendations. IRS management disagreed with pursuing Title 31 penalty authority stating that it was outside the IRS's purview, and that FinCEN intends to retain this authority.
Reference No. 2018-30-071

Improvements Are Needed in the Withholding Compliance Program

During FY 2017, $1.33 trillion was secured through income tax withholding, which represented 39 percent of total tax revenues for the year. This audit was initiated to determine the effectiveness of the Withholding Compliance Program in addressing taxpayers' underwithholding.

In July 2014, IRS management discontinued accepting referrals from other IRS functions of taxpayers whom they identified as having withholding issues. The IRS planned to issue more lock-in letters[12] systemically. However, the number of lock-in letters issued in TY 2016 was less than the number issued in TY 2014. Internal Revenue Code § 3403 provides that employers are liable for underwithholding of Federal income taxes. However, the IRS does not track or hold liable employers that do not comply with the changes requested in the lock-in letters. TIGTA identified that 26 (33 percent) of the 79 sample cases continued to have insufficient withholding based on the rate stated on the lock-in letter, and the employer did not adjust the withholding as instructed.

11 TIGTA, Ref. No. 2016-30-083, *As the Use of Virtual Currencies in Taxable Transactions Becomes More Common, Additional Actions Are Needed to Ensure Taxpayer Compliance* (Sept. 2016).

12 Letter 2800-C, *WHC Lock-in Letter to Employer,* and 2801-C, *WHC Lock-in Letter to Employee*, are commonly referred to as "lock-in letters." Letter 2800-C instructs the employer to disregard Form W-4 submitted by the taxpayer and withhold at the marital status and the number of allowances determined by the IRS. Letter 2801-C advises the taxpayer that the employer has been instructed to disregard Form W-4 submitted by the taxpayer and withhold at the rate specified in letter 2800-C, unless the Form W-4 results in more tax withheld than the lock-in letter.

TIGTA determined that the Withholding Compliance Program prioritized unenforceable or unproductive cases. In FY 2016, 41 percent of all lock-in letters were issued to Federal Employee/ Retiree Delinquency Initiative (FERDI) employees, despite the fact that FERDI employees represented only 3 percent of all taxpayers who were identified as having underwithheld taxes. In addition, according to the IRS, in TY 2016, 87 percent of the cases identified for lock-in letters were nonfilers, but tests of a sample of 60 cases showed that only 13 ultimately filed a balance due return. Lastly, due to a management oversight, the IRS had not issued lock-in letters to IRS employees since TY 2013.

TIGTA recommended that the IRS:

- Determine the feasibility of providing revenue officers, and potentially other IRS functions, with the ability to issue lock-in letters when an underwithholding issue is identified;
- Identify noncompliant employers and hold employers liable for failing to comply with a lock-in letter;
- Work with Federal Government agencies that are not complying with the lock-in letters;
- Assess the most effective use of resources for issuing lock-in letters and analyze the current selection criteria; and
- Update the Internal Revenue Manual to include that IRS employees will now be part of the review process.

IRS management agreed with all of TIGTA's recommendations.
Reference No. 2018-30-072

Impact of Global Economy on Tax Administration

The U.S. Congress intended for the Foreign Account Tax Compliance Act (FATCA)[13] to improve U.S. taxpayer compliance with requirements for reporting foreign financial assets and offshore accounts. Under FATCA, beginning with TY 2011, individual taxpayers with specified foreign financial assets that meet a certain dollar threshold should report this information to the IRS by filing Form 8938, *Statement of Specified Foreign Financial Assets*, with their income tax returns.

To avoid being subject to withholding, FATCA requires foreign financial institutions (FFI) to register and agree to report to the IRS certain information about financial accounts held by U.S. taxpayers or held by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

Despite Spending Nearly $380 Million, the Internal Revenue Service Is Still Not Enforcing Compliance With the Foreign Account Tax

TIGTA evaluated the IRS's efforts to ensure that taxpayers, the FFIs, and withholding agents complied with FATCA and determined that, despite spending nearly $380 million, the IRS had taken limited or no action with respect to a majority of the planned activities outlined in the FATCA Compliance Roadmap.[14]

13 Pub. L. No. 111-147, Subtitle A, 124 Stat 97 (2010) (codified in scattered sections of 26 U.S.C.).
14 The FATCA Compliance Roadmap documents compliance planning involving FATCA data and provides a baseline for future compliance planning and implementation activities across the IRS.

The reports filed by the FFIs did not include (or included invalid) TINs. As a result, the IRS's efforts to match FFI and the data of individual taxpayers were unsuccessful, which affected the IRS's ability to identify and enforce FATCA requirements for individual taxpayers.

Only after TIGTA provided feedback did the IRS initiate action to enforce withholding agent compliance with FATCA. A significant percentage of the FATCA Forms 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, received by the IRS did not have valid TINs. However, most Form 1099 series information returns pertaining to FATCA did have valid TINs and could be used by the IRS in its FATCA compliance strategies. There were 62,398 TY 2015 Forms 1042-S with invalid TINs reporting more than $717 million in U.S. source income, of which just over $47 million was withheld.

TIGTA recommended that the IRS:

- Establish follow-up procedures and initiate action to address error notices related to file submissions rejected by the International Compliance Management Model;
- Initiate compliance efforts to address taxpayers who did not file a Form 8938 but who were reported on a Form 8966, *FATCA Report*, filed by an FFI;
- Add guidance to the Form 8938 instructions to inform taxpayers on how to use the FFI List Search and Download Tool on the IRS's website;
- Initiate compliance efforts to address and correct missing or invalid TINs on Form 8966 filings by non-Intergovernmental Agreement (IGA) FFIs and Model 2 IGA FFIs;
- Expand compliance efforts to address and correct the invalid TINs on all Form 1042-S filings by non-IGA FFIs and Model 2 IGA FFIs; and
- Initiate compliance efforts to compare Form 1099 filings with valid TINs to corresponding Form 8938 filings.

IRS management agreed with four of TIGTA's six recommendations.
Reference No. 2018-30-040

Forms, Instructions, Publications, and Procedures Need to Be Improved for Some Nonresident Aliens Eligible for Treaty-Based Income Exemptions

Nonresident aliens who are temporarily present in the United States to study, obtain training, teach, conduct research, and/or perform services as an employee are generally subject to U.S. income tax. However, some nonresident aliens who perform services as an employee may be eligible to exempt some or all of their income from U.S. tax under a tax treaty. According to IRS records from PYs 2016 and 2017, 119,544 nonresident aliens claimed $2 billion in treaty-based income exemptions for TY 2015. This audit was initiated to evaluate the IRS's efforts to ensure the accuracy of treaty-based income tax exemptions claimed by these nonresident alien individuals.

TIGTA found that IRS forms, instructions, and publications were inadequate and assumed that nonresident aliens had both a Form 1042-S reflecting income exempt by treaty, and a Form W-2 reflecting taxable wages. Nonresident aliens will have both forms only if they file a Form 8233, *Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual*, with their withholding agent (generally their employer) in order to receive a full or partial exemption from withholding.

TIGTA reviewed a randomly selected sample of 125 Forms 1040NR, *U.S. Nonresident Alien Income Tax Return*, and Forms 1040NR-EZ, *U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents*, with treaty-based income exemptions. The majority, *i.e.,* 113 (90 percent) of the 125 cases, appeared entitled to treaty-based income exemption claims. TIGTA observed that in 69 of the 125 cases reviewed, the nonresident aliens received only a Form W-2 and not a Form 1042-S for exempt income. In 54 of the 69 cases, the nonresident aliens deviated from IRS instructions and reduced Form W-2 taxable wages in order to claim treaty-based income exemptions for $344,640. In eight of the 69 cases, the nonresident aliens followed IRS instructions reporting Form W-2 taxable wages, but as a result did not receive $35,278 in treaty exemptions.

In 40 of the 125 cases, nonresident aliens received both a Form W-2 and a Form 1042-S. However, in 10 of 40 cases, the Form 1042-S was for scholarship income and the nonresident aliens did not receive a second Form 1042-S for wages. In these instances, the nonresident aliens deviated from IRS instructions and reduced Form W-2 taxable wages totaling $38,772 to account for the treaty exemption. In four of the 40 cases, the nonresident aliens incorrectly received the treaty-based income exemption twice because they reduced Form W-2 taxable wages even though the wages were already reported on Form 1042-S and accounted for by the employer.

TIGTA recommended that the IRS:

- Consider updating the appropriate forms, instructions, and publications to clarify how nonresident aliens who do not file a Form 8233 with their employer are still able to claim the treaty exemption; and
- Increase outreach and education to withholding agents and nonresident aliens to improve their knowledge of the information reporting rules, improve the accuracy of information reporting, and reduce the number of erroneous tax returns.

The IRS agreed with both of TIGTA's recommendations.
Reference No. 2018-30-074

Achieving Program Efficiencies and Cost Savings

The Federal Employees' Compensation Act[15] program, which provides workers' compensation (compensation and medical benefits) to Federal Government employees, remains vulnerable to fraud because program benefits equal up to 75 percent of the injured worker's pre-disability wage income tax free. Given the substantial cost of this program, it is important for the IRS to accurately initiate and consistently monitor claims to ensure that taxpayer funds are spent properly.

15 Ch. 458, 39 Stat. 742 (1916), 5 U.S.C. §§ 8101-8193 (2013) (codified as amended in scattered sections of 1 U.S.C., 5 U.S.C., and 18 U.S.C.).

Improvements Are Needed to Provide Effective Oversight of Workers' Compensation Claims

For the four-year period ending June 30, 2017, the IRS paid an average of about $40 million per year for workers' compensation cases. TIGTA initiated this audit to determine the nature of IRS workers' compensation claims and to assess the IRS's oversight of workers' compensation claim initiation, monitoring, and cost. TIGTA discovered that, as of July 2016, 892 (62 percent) of 1,433 IRS employees in the program had received benefits for six or more years. This included more than 100 employees who received workers' compensation for more than 30 years and almost 50 employees who received benefits for more than 40 years.

After reviewing a sample of active claims as of July 15, 2016, TIGTA estimated that about 133 (9 percent) had not been initiated properly. For example, agencies are required to obtain documentation to determine whether claimants sustained or aggravated their injuries in the performance of their duties. However, for some cases, the physicians did not indicate in the medical documentation whether the claimants' injuries were attributable to IRS work activities. The IRS risks incurring unnecessary and substantial costs for many years for injuries not attributable to working at the IRS if cases are not initiated properly. In one sampled case with insufficient documentation, TIGTA identified total compensation costs of more than $1 million.

The monitoring of workers' compensation claims also needs improvement. TIGTA estimated that about 957 (67 percent) claims from the same statistical sample previously mentioned were not monitored timely. Agencies are required to follow up at scheduled intervals to obtain updated medical status reports and determine whether claimants had any non-IRS earnings that could affect the amount of the claims being approved. For these, TIGTA determined that IRS specialists in charge of monitoring cases frequently did not follow up timely or did not follow up at all. In one case for which more than $20,000 was paid in medical expenses over a two and one-half year period, TIGTA found no evidence that the IRS requested updated medical documentation during that time.

TIGTA recommended that the IRS:

- Train IRS specialists to ensure that all five elements required to properly initiate a claim are met when initiating workers' compensation claims;
- Develop procedures to remind specialists when it is time to obtain updated documentation to monitor active claims; and
- Conduct quality reviews of active claims to determine whether updated documentation is being obtained and reviewed as required.

IRS management agreed with all of TIGTA's recommendations.
Reference No. 2018-10-037

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

OI accomplishes its mission through the hard work of its employees, whose efforts are guided by a performance model that focuses on three primary areas of investigative responsibility:

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

OI has adopted performance measures that identify results derived from those 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 services, 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 adversely 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 DOJ or to State authorities 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 Federal tax laws and regulations. IRS employee misconduct can erode the public's trust and impede the IRS's ability to effectively enforce tax laws.

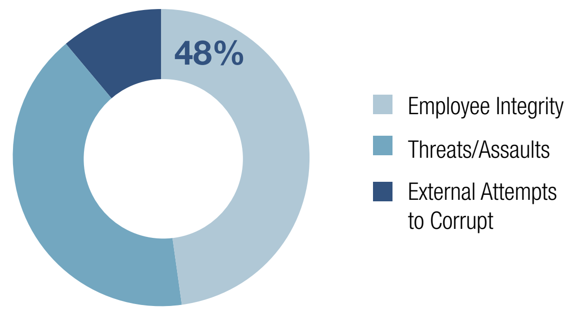
Employee misconduct can take many forms, such as: the misuse of IRS resources or authority; theft; fraud; extortion; taxpayer abuse; unauthorized access to, and disclosure of, tax return information; and identity theft.

During this reporting period, employee integrity investigations accounted for 48 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 to commit identity theft and other fraud. 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.

Employee Integrity Investigations



Employee integrity investigations represented 48 percent of TIGTA's investigative work.

The following case represents OI's efforts to investigate identity theft committed by IRS employees during this six-month reporting period:[16]

Former IRS Employee Sentenced for Stealing Taxpayer's Identity

On May 11, 2018, in the Western District of Arkansas, former IRS employee Ryan Payne was sentenced and remanded to custody for aggravated identity theft and false representation of a Social Security Number (SSN). Payne was indicted for the offenses in July 2017 and pled guilty in January 2018. Payne was employed as a revenue agent by the IRS in Fayetteville, Arkansas, until January 2015, when he resigned. According to the indictment, in April 2015 and August 2015, Payne, knowingly and with intent to deceive, falsely represented two SSNs to be his own while applying for a loan and a bank account, respectively. In fact, neither of the SSNs was assigned to him.

Payne admitted that he had obtained one of these SSNs during his employment with the IRS. Specifically, as part of his duties as a revenue agent, Payne conducted an audit of a victim's business. During the audit, the victim provided Payne with a flash drive containing business records and identifying information. Payne admitted that he kept the flash drive after his resignation from the IRS and later retrieved the personal information from the drive.

CreditSecure notified the victim that his identity had been compromised and that multiple credit accounts had been set up using his name, date of birth, and SSN. Payne had set up an account at Synchrony Bank using the victim's SSN, but with a business name and billing address associated with himself.

Payne was sentenced to 52 months' imprisonment followed by three years of supervised release. He was further ordered to pay restitution totaling $9,953.13.

16 The facts in the summarized case narratives come from court documents of the respective jurisdictions.

Employee Integrity

The following cases represent OI's efforts to address employee integrity during this six-month reporting period:[17]

Former IRS Employee Sentenced to Prison for Filing Fraudulent Tax Returns

On April 16, 2018, in the Western District of Missouri, former IRS employee Carla Mitchell was sentenced for filing false tax returns. Mitchell was initially charged with this offense, plus aggravated identity theft, in January 2017, in a 15-count indictment. In September 2017, she pled guilty to filing false tax returns.

At all times relevant, Mitchell was a contact representative at the IRS Service Center in Kansas City, Missouri. Mitchell was employed by the IRS from 2006 until June 2015, when she resigned. From at least February 2012 and continuing to about February 2014, Mitchell intentionally devised a scheme for the purpose of obtaining funds to pay her own personal expenses and the expenses of family members by preparing false tax returns in which she used false or stolen information.

Specifically, Mitchell prepared false tax returns for TYs 2011, 2012, and 2013 for approximately 13 of her friends and family members, as well as for herself. As part of her scheme, Mitchell included false entries to lower the individual tax liability or increase refunds of her friends, family members, and herself. These false entries included false wages and occupations, fraudulent Federal income tax withholdings, false Schedule C, *Profit or Loss from Business*, entries, fraudulent dependents, and false education expenses and credits.

Mitchell prepared the false returns from her residence, her boyfriend's residence, and the IRS Service Center in Kansas City, Missouri. She charged approximately $150 each for the preparation of some of the returns, but did not sign the returns as a "paid preparer" and did not provide her friends and family members with their copies of the completed returns. Mitchell directed refunds from seven of the false returns be deposited on a prepaid debit card mailed to her at her home address. Mitchell was linked to 27 fraudulent returns.

Mitchell was sentenced to 12 months and one day in prison followed by one year of supervised release. She was further ordered to pay $137,483.37 in restitution to the IRS and is prohibited from employment as a tax preparer or involvement in tax preparation for others in any capacity.

Former CI Special Agent Found Guilty in a Scheme Designed to Defraud and Obstruct the IRS

On June 15, 2018, in the Eastern District of California, a jury found former CI Special Agent Alena Aleykina guilty of filing false tax returns, theft of Government funds, and obstruction of justice. Aleykina was charged with the offenses in October 2016.

According to the court documents, Aleykina, a resident of Sacramento, California, was employed as a CI special agent from approximately 2006 to 2014. Aleykina also was a certified public accountant.

17 The facts in the summarized case narratives come from court documents of the respective jurisdictions and other publicly available records.

Between 2010 and 2012, Aleykina prepared six false tax returns. Three of the returns were Aleykina's own individual income tax returns, and three were tax returns for trusts that she established. Each was signed under penalty of perjury and contained false statements.

On Aleykina's individual tax returns, she falsely claimed head-of-household filing status. She claimed three dependents, tuition and fees deductions, and losses of up to $25,000 for trusts that she had established. She had knowledge that all of these claims were false and was aware that she was not entitled to make these claims. Aleykina also stole public money and converted it to her own use, despite knowing that she was not eligible for such money, by causing the IRS to issue IRS Tuition Assistance Reimbursement payments to her. In addition, the three trust tax returns prepared by Aleykina contained false statements, including but not limited to the amounts of rents received, deductions for negative income distributions, and claims of negative net income, all of which were declared as losses on two of her corresponding individual tax returns. The total loss to the Government was more than $60,000.

Additionally, Aleykina, knowingly and with the intent to obstruct the investigation, destroyed, altered, concealed, or falsified at least one record that was stored on a Government-issued computer and Government servers. Specifically, when special agents approached Aleykina to retrieve her Government laptop, she lied to them about its location and then began deleting files from it after they left.

At her sentencing, Aleykina could face a maximum penalty of 20 years' imprisonment for the destruction of records in a Federal investigation.

IRS Employee Pleads Guilty to Making False Statements

On May 31, 2018, in the District of New Jersey, IRS employee Chandra Porter pled guilty to one count of making false representations and documents. Porter was previously charged with the offense on June 13, 2017, for making and using false documents in order to defer the repayment of student loans provided by the United States.

According to the court documents, Porter, while employed full time by the IRS, knowingly and willfully signed and submitted multiple false Federal Family Education Loan Program (FFELP) Unemployment Deferment Request Forms, on which she falsely represented that she was unemployed and was diligently seeking but unable to find full-time employment, in order to defer the repayment of student loans.

Porter's child was enrolled as a student in a college education program during the time that the U.S. Department of Education was administering the FFELP to assist families with students in college to obtain financial aid. Porter signed and dated a completed Direct Plus Loan (DPL) Application and Master Promissory Note on or about June 16, 2008, for her child's college tuition, which resulted in a disbursement of approximately $49,179 in FFELP funds. The repayment of the loan was deferred while Porter's child was enrolled in college; however, on or about April 28, 2011, following her child's completion of the college program, Porter began submitting deferment applications that falsely represented that she was unemployed or was working less than full time, when, in fact, Porter was gainfully employed full time at the IRS. The outstanding balance on the DPL loans owed by Porter is approximately $86,348.

IRS Employee Charged With the Theft of Government Funds

On June 15, 2018, in the District of Maryland, a criminal complaint was filed charging IRS employee Jami Harbin with five counts of theft of Government funds.

According to the court documents, at all relevant times, the IRS employed Harbin full time in New Carrollton, Maryland, as an information technology project manager. At the same time, Harbin also engaged in outside employment with Delta Airlines at Ronald Reagan Washington National Airport.

The complaint alleges that Harbin knowingly and unlawfully stole and converted to her own use money belonging to the United States by collecting her salary while claiming she worked certain hours as an IRS employee when, in fact, she was actually working for Delta Airlines. Specifically, on five separate dates in May 2017, Harbin worked at her job at Delta while simultaneously claiming to be working at her full-time job with the IRS. Consequently, Harbin received payment from both jobs without working or taking leave from her IRS job.

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 18 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 in the course of performing their official duties are referred to OI.

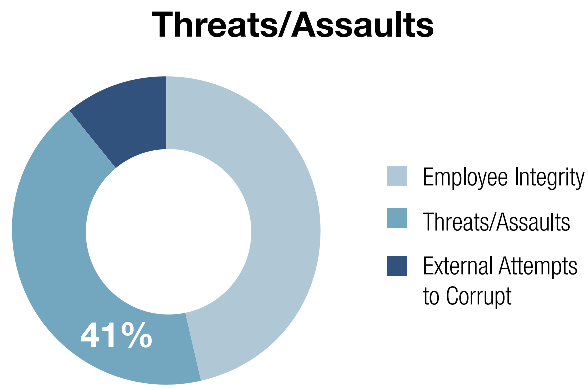
Contact with the IRS can be stressful and emotional for taxpayers. While the majority of taxpayer contacts are routine, some may become confrontational and even violent. TIGTA's special agents are statutorily mandated to provide physical security, known as "armed escorts," to IRS employees who have face-to-face contact with taxpayers 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 29 armed escorts for IRS employees.

OI 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's 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 41 percent of OI's work.

The following cases represent OI's efforts to ensure the safety of IRS employees during the reporting period:[18]



During this six-month reporting period, threat and assault investigations accounted for 41 percent of OI's work.

Washington Man Sentenced for Mailing Fake Pipe Bomb to the IRS

On August 24, 2018, in the Western District of Washington, Normand Lariviere was sentenced for mailing threatening communications to the IRS. Lariviere pled guilty to the charge on May 3, 2018. Special agents from TIGTA and the Federal Protective Service previously arrested Lariviere for the offense on July 7, 2017.

According to the court documents, on or about June 30, 2017, Lariviere knowingly and willfully deposited a communication containing a threat to injure Federal employees into a U.S. Postal Service depository for mailing to the IRS in Ogden, Utah.

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 Davis County Sheriff's Office responded to the facility with its explosive ordinance team, the building was evacuated, and by using a robot, the ordinance team deemed the package 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.

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 the U.S. Government is turning him into a "jihadi" and said he feels like he is self-radicalized.

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 would use the mail system to send another device because letters do not work.

18 The facts in the summarized case narratives come from court documents of the respective jurisdictions.

Lariviere has sent several mailings to the IRS in the past. In 2016, one mailing included Lariviere's severed finger and a bullet. In another 2016 mailing, Lariviere included a marijuana cigarette and previous documentation from the IRS. Other mailings have included frivolous documents regarding the legality of the tax code. Lariviere admitted to severing his own finger, and said he does not believe he should be paying taxes because the Government is not paying attention to his claims.

Lariviere previously served in the U.S. Navy for eight years, and worked for the Navy as a civilian electrician until the Navy had a reduction in force action in the early 1990s. Lariviere has grievances related to that reduction in force against a number of agencies, including the IRS, the Department of Veterans Affairs, the OPM, the Department of Defense, the Office of Special Counsel, and the Merit Service Protection Board.

Lariviere was sentenced to time served and three years' supervised release. He was further ordered to pay an assessment fee.

Miami Tax Services Provider Charged With Assaulting and Threatening IRS Employee with Shotgun

On June 5, 2018, in the Southern District of Florida, tax services provider Jimmy Sierra was indicted for forcibly assaulting an IRS revenue officer with a deadly weapon while the revenue officer was in the performance of his official duties. TIGTA special agents had previously arrested Sierra for the offense on May 21, 2018.

According to the court documents, on May 21, 2018, the victim went to Sierra's tax business, in the course of his official duties as an IRS revenue officer, to collect a Federal tax payment. Upon arrival, the victim identified himself to Sierra as an IRS employee and presented his IRS-issued credentials. Sierra subsequently invited the victim inside. Shortly after the two entered Sierra's office, Sierra summoned an unidentified male witness into the office. In the presence of the witness, Sierra pulled a shotgun from his desk drawer, pointed it at the unarmed victim, and stated in part, "I'm going to shoot you. You want it in the balls or you want it in the chest?" At that time, the victim backed away, again displayed his IRS-issued credentials, and called 911.

Sierra stated aloud to the witness that he was going to shoot the victim. Fearing for his life, the victim wrestled the shotgun from Sierra but sustained injuries. The victim was able to flee Sierra's office and was later transported to a hospital for medical attention.

On May 23, 2018, a court found Sierra to be a danger to the community, and a U.S. Magistrate Judge ordered his pretrial detention. A trial date is scheduled for November 26, 2018. If convicted, Sierra could face a maximum sentence of 20 years' imprisonment.

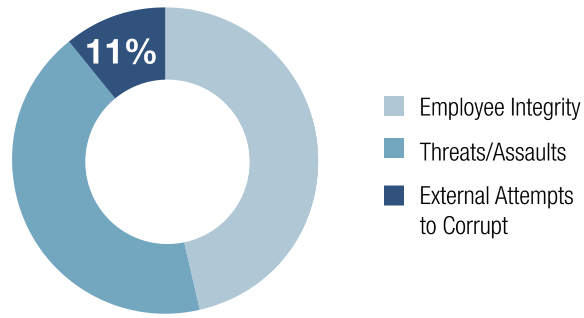
Performance Area: External Attempts to Corrupt Tax Administration

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 unsupecting taxpayers or to steal 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 preloaded debit card, wire transfer, or gift cards from Apple iTunes®, Walmart, or Target. Sometimes taxpayers are tricked into providing their PII, which the impersonator then uses to commit identity theft.

External Attempts to Corrupt



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

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 calls the "Dirty Dozen" list 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 2018 "Dirty Dozen" list.

Between October 2013 and September 2018, TIGTA logged more than 2.4 million contacts from taxpayers who reported they had received telephone calls from individuals who claimed to be IRS employees. The impersonators told the victims they owed additional tax and that if they did not immediately pay, they would be arrested, lose their driver's license, or face other adverse consequences. As of September 30, 2018, more than 14,700 victims have reported to TIGTA they had lost upwards of $72.8 million to the scam's perpetrators.

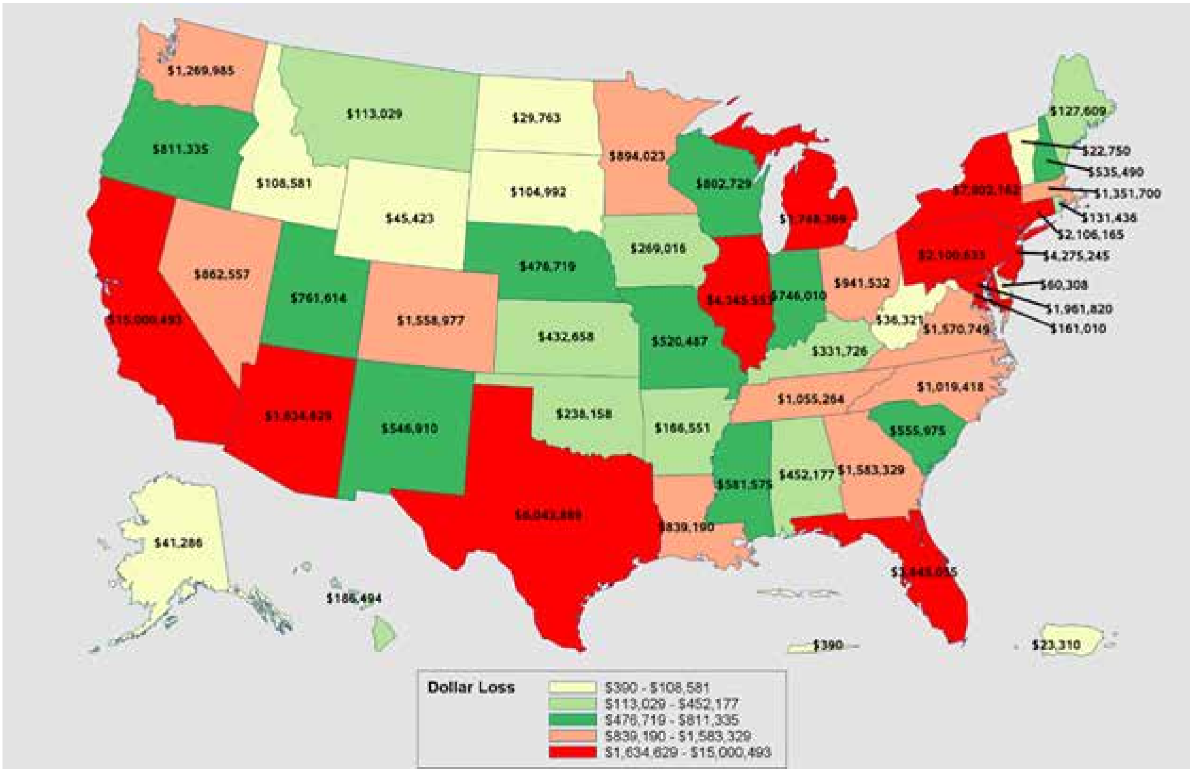
As a result of TIGTA's relentless commitment to protecting taxpayers, a total of 130 individuals have been charged in Federal court for their roles in IRS impersonation scams, as of September 30, 2018. Sixty-four of those individuals have been sentenced and collectively received a total of more than 319 years' imprisonment.

Most recently, on September 4, 2018, 15 individuals and five call centers were indicted in the Northern District of Georgia for their roles in the IRS impersonation scam that defrauded individuals out of more than $5.5 million.

Because of their complexity, scams such as these are not typically resolved quickly. This wide-ranging scam has claimed victims in every State. The top five States by number of victims who have suffered financial losses are California, New York, Texas, Illinois, and New Jersey.

> Since 2013, the IRS impersonation scam has been on a relentless path, claiming more than 14,000 victims who have lost upwards of $71 million to the scammers," the Inspector General noted. "TIGTA will continue to be just as relentless in our pursuit of individuals who fraudulently represent themselves as IRS officials in order to extort money from taxpayers. We will not back down from our pursuit of these criminals, and will continue to work with all law enforcement partners to bring them to justice.
>
> *J. Russell George*
> *Treasury Inspector General for Tax Administration*
> *DOJ Press Release*
> *September 7, 2018*

Financial Losses by State



Source: TIGTA's Office of Investigations

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 deactivate the number.

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 the impersonators with a pre-recorded message ordering them to cease and desist their criminal activity, a procedure which also occupies the impersonators' time and telephone lines. This procedure has resulted in more than 184,414 auto-dialed calls back to the scammers.

As of September 30, 2018, more than 1,392 telephone numbers associated with the scam have been identified using the Advise and Disrupt strategy, and 96 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.

TIGTA is also dedicated to educating the public about identity theft and IRS impersonation scams as part of 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 Department of Veterans Affairs, the DOJ 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 ongoing scam.

TIGTA urges the public to remain on "high alert" and continues to conduct outreach efforts to prevent taxpayers from falling victim to criminals who impersonate IRS and other Treasury Department employees. This expanded outreach includes public service announcements, available on YouTube.com in English and Spanish, that warn taxpayers about the scam.

OI 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 continuing collaboration with the FTC and the FCC, OI has worked with the USTelecom Consortium and the RoboCall Task Force to identify how technology could be used to stop the spoofed calls that are being placed by call centers located outside of the United States. In one successful pilot program, TIGTA and the Department of Homeland Security collaborated with Verizon Communications, Inc. to block almost 2 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 that 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, they are being scammed, and they should not proceed with the transaction.

Because Apple iTunes cards were being used 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, allowing it to reach more than 46 million shoppers. In addition, TIGTA has partnered with retailers such as Walmart, Target, and Best Buy to identify trends and mitigate fraudulent activity. For example, Walmart has agreed to train its employees on how to recognize the fraud and to post warning placards and fraud warning messages on cash envelopes. TIGTA also partnered with AT&T to analyze scam-associated telephone numbers provided by victims.

Impersonation Scams

The following cases are representative of OI's efforts to investigate IRS impersonation scams during this six-month reporting period:[19]

19 The facts in the summarized case narratives come from court documents of the respective jurisdictions.

Men Sentenced to Eight Years in Prison for Roles in an IRS Impersonation Scam

On May 30, 2018, in the Southern District of Texas, Vedas Engineer was sentenced for his role in a scheme involving the impersonation of IRS employees. On August 27, 2018, coconspirator Bhavdip Sanghavi was also sentenced. Engineer and Sanghavi were indicted in May 2017, for wire fraud and conspiracy to commit wire fraud in connection with the scheme. Engineer pled guilty to conspiracy to commit wire fraud in July 2017, and Sanghavi pled guilty in December 2017.

According to the court documents, from about June 2015 until May 2017, Engineer, Sanghavi, and others knowingly conspired to devise a scheme to defraud and to obtain money by means of false and fraudulent representations. 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 then used threats and other methods of intimidation to convince the victims to pay money in order to resolve their purported tax debts immediately.

On or about May 2, 2017, a small business owner in Shreveport, Louisiana, reported that he had fallen victim to the IRS impersonation scam. Individuals claiming to be IRS employees had contacted him and directed him to send a $25,000 cashier's check via United Parcel Service (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. TIGTA special agents 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. Special agents made contact with Engineer and he agreed to meet with TIGTA special agents on May 8, 2017, with his attorney. Approximately two hours before the scheduled meeting, TIGTA received information that Engineer was attempting to leave the country via a flight from Chicago's O'Hare International Airport for his native country of India. TIGTA special agents subsequently arrested Engineer on the same date in Chicago, Illinois. Engineer's plea agreement indicated that more than $1.7 million had been wired to him and his coconspirators during the conspiracy.

Engineer and Sanghavi were each sentenced to 96 months' imprisonment followed by three years of supervised release. Sanghavi was ordered to pay restitution in the amount of $1,075,093.68. An order of forfeiture was filed ordering Engineer to pay a personal money judgment in the amount of $475,000 and to forfeit a piece of real property in Houston, Texas.

California Man Indicted for His Role in an IRS Impersonation Scam

On July 10, 2018, in the District of Minnesota, Yu Zhang was indicted for wire fraud in connection with an interstate scheme to defraud by falsely impersonating IRS employees.

Zhang, or persons acting in concert with him, contacted victims throughout the United States by telephone, falsely claimed to be IRS agents, and threatened to arrest them unless they made immediate payment for delinquent taxes. The caller instructed the victims to purchase Target gift cards from local Target stores and provide the caller with the gift card numbers and activation codes. Zhang traveled to Target stores in multiple States to purchase third-party gift cards using the Target gift card numbers and activation codes obtained from the victims.

In furtherance of the scheme to defraud, on May 31, 2018, an individual claiming to be an IRS employee contacted a victim in Iowa, said the victim owed more than $4,000 in taxes, and threatened the victim with arrest. The IRS impersonator then demanded that the victim go to the nearest Target store and purchase two $2,000 gift cards, which the scammer claimed that the IRS used as "Taxpayer Identification Forms." The victim complied, used cash to purchase the gift cards, and provided the card numbers and activation codes to the IRS impersonator. The impersonator then instructed the victim to purchase an additional gift card for $2,000 to have the "arrest warrant" removed. The victim did as instructed.

According to the indictment, Target surveillance cameras showed the victim leaving the Target store in Iowa after purchasing the third gift card. Shortly thereafter, Zhang used that same gift card at a Target store in Minnesota to purchase $1,000 worth of prepaid, third-party gift cards issued by Google Play™ and Steam™. He then traveled to another Target store in Minnesota and used the remaining $1,000 to purchase additional Google Play and Steam cards. Zhang was arrested at a Target store in Andover, Minnesota, by local law enforcement. At the time of his arrest, Zhang had in his possession several hundred third-party gift cards worth tens of thousands of dollars.

Between May 28, 2018 and June 8, 2018, Zhang redeemed approximately $220,000 worth of Target gift cards by conducting hundreds of transactions at Target stores in Minnesota. Zhang was ordered to forfeit any property derived from proceeds traceable to the wire fraud scheme.

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:[20]

Louisiana Man Sentenced for Misusing SSN in Attempts to Obtain President Trump's Tax Information

On April 25, 2018, in the Middle District of Louisiana, private investigator Jordan Hamlett was sentenced for false representation of an SSN. Hamlett was indicted for the offense in November 2016 and pled guilty in December 2017.

According to the court documents, on September 13, 2016, Hamlett, knowingly and with the intent to deceive, falsely represented the SSN of another to be his own for the purpose of creating a Free Application for Federal Student Aid (FAFSA) and a Federal Student Aid Identification Number (FSA ID). Hamlett also used the name, date of birth, and other personal information associated with the SSN in his online FAFSA request.

As part of his fraudulent use of the SSN, Hamlett answered requests for information required by the online FAFSA and by the associated IRS Data Retrieval Tool (DRT), falsely declaring that he was the individual who was assigned the SSN. In fact, the SSN was assigned to then-presidential candidate Donald J. Trump.

By making such a declaration, Hamlett obtained an FSA ID and subsequently used the IRS DRT to unlawfully attempt, on six separate occasions, to obtain the presidential candidate's Federal tax information from IRS servers.

20 The facts in the summarized case narratives come from court documents of the respective jurisdictions and other publicly available records.

Hamlett was sentenced to 18 months' imprisonment followed by two years of supervised release. He was further ordered to pay $14,794.96 in restitution to the U.S. Department of Education.

Eight Indicted in Scheme Using Stolen Tax Refund Checks

On July 9, 2018, an indictment was unsealed in the Western District of Missouri charging eight individuals in a scheme involving the theft of U.S. Treasury tax refund checks. Branden Belvin, Mistie Smith, Dante Chestnut, Susannah Lesaisaea, Cassandra Franklin, Sharieff Sylvester, Joseph Hooks, and Frances Wright were indicted on May 2, 2018, for conspiracy, bank fraud, and aggravated identity theft. Belvin, Smith, Chestnut, and Hooks were also charged with money laundering.

According to the court documents, Belvin and Smith, both residents of California, obtained approximately 99 Treasury checks that had been stolen from the U.S. Postal Service mail stream. The Treasury checks had been issued for tax refunds and were printed in and mailed from Kansas City, Missouri. Belvin and Smith recruited the codefendants to participate in the scheme by negotiating the stolen checks. They created or obtained fraudulent identification documents, such as driver's licenses, in order to deposit the stolen refund checks.

Between March 2016 and May 2016, the coconspirators traveled through Arizona, Colorado, Kansas, and Missouri negotiating the stolen refund checks at various branches of Academy Bank, a financial institution headquartered in Kansas City, Missouri. The defendants used the false identification documents in order to open bank accounts in the names depicted on the checks. They then deposited the checks into the newly created accounts and subsequently withdrew the majority of the money.

In April 2016, Denver, Colorado, police officers responded to an incident involving Belvin and Smith at a hotel. Officers recovered an envelope containing 19 counterfeit California driver's licenses. The names on the counterfeit driver's licenses matched the names of victims whose tax refund checks had been stolen and cashed, but most of the licenses pictured the same six coconspirators: Chestnut, Sylvester, Franklin, Lesaisaea, Wright, and another individual.

The scheme resulted in the fraudulent negotiation of approximately 99 checks with a total financial loss of approximately $447,517. If convicted, the defendants could each face a maximum statutory sentence of 30 years' imprisonment for bank fraud, plus a mandatory consecutive sentence of two years' imprisonment for aggravated identity theft.

Seven Individuals Indicted in Treasury Check Theft Ring

On June 18, 2018, in the Southern District of New York, seven individuals were indicted for their roles in a scheme involving the theft of U.S. Treasury checks, among other things. Lenin Guzman-Hidalgo, Ana Vianely Molina, Winston Ramirez, and four other defendants were charged with conspiracy to steal Government funds, theft of Government funds, and aggravated identity theft. Ramirez and the four others were also charged with bank fraud and conspiracy to commit bank fraud.

According to the court documents, from about May 2012 up to September 2017, Guzman-Hidalgo, Molina, Ramirez, and the others knowingly and willfully conspired to steal Government funds from the IRS and converted them for their own use. The defendants wrongfully obtained Treasury checks in the names of victims and sold, deposited, or cashed the checks without the victims' authorization.

Guzman-Hidalgo, Molina, Ramirez, and the other defendants knowingly used, aided, and abetted in the use of names, signatures, addresses, dates of birth, SSNs, and driver's license numbers of other individuals, without lawful authority, in connection with the offenses.

In furtherance of the scheme, Ramirez and four other defendants, some of whom are Ramirez's siblings, cashed and deposited stolen checks into bank accounts, many of which they opened using stolen identities. The investigation identified deposits of approximately $3.5 million in stolen tax refund checks. A total of 58 third-party U.S. Treasury checks and one third-party cashier's check in the amount of $157,529 were deposited into five bank accounts associated with Ramirez.

Ramirez and the other defendants charged with bank fraud could each face up to 30 years in prison. Each of the defendants could face a maximum statutory sentence of 10 years' imprisonment for the theft of Government funds, plus a mandatory consecutive sentence of two years' imprisonment if convicted of aggravated identity theft.

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 and their influence 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.

During this semiannual reporting period, TIGTA special agents provided 33 integrity presentations to tax preparers at various locations nationwide. The presentations generally informed tax preparers of TIGTA's role in protecting the integrity of tax administration, the differences between the respective jurisdictions of TIGTA and the IRS, how to identify various forms of preparer misconduct, and common IRS impersonation scams. It is estimated that more than 3,328 tax preparers attended presentations at the Tax Forums, held in the following cities: Atlanta, Georgia; Chicago, Illinois; Orlando, Florida; San Diego, California; and Washington, D.C. The focus of these presentations was, "TIGTA: Helping You and Your Clients Steer Clear of the Latest Frauds and Swindles."

The following cases represent OI's efforts to protect tax administration from unscrupulous tax preparers during this six-month reporting period:[21]

Georgia Man Sentenced to 30 Months' Imprisonment and Ordered to Pay More Than $1 Million in Restitution for Making False Statements

On June 8, 2018, in the Northern District of Georgia, Thomas Bowman was sentenced for making a false statement on a bank loan application and forging a victim's signature on an IRS Form 2848, *Power of Attorney and Declaration of Representative*. Bowman previously pled guilty to the offenses on June 29, 2017.

According to the court documents, on or about November 17, 2014, Bowman made a false statement on a Small Business Administration Form 1919, *Borrower Information Form*, by failing to disclose that he had previously been placed on probation by the Superior Court of Cobb County, Georgia, in 2007. According to the same court documents, on or about December 28, 2012, Bowman forged the victim's

21 The facts in the summarized case narratives come from court documents of the respective jurisdictions.

signature on an IRS Form 2848, which was fraudulently made to appear as if the victim had signed the form to give power of attorney to Bowman.

Bowman was sentenced to 30 months' imprisonment and ordered to pay restitution in the amount of $1,073,023.24.

California Tax Preparer Pleads Guilty in Embezzlement Scheme

On June 25, 2018, in the Central District of California, tax preparer David Laskey pled guilty to wire fraud in connection with a scheme to defraud a client. He was initially charged with the offense on April 11, 2018.

According to the court documents, Laskey was a tax preparer and consultant in Lake Forest, California. He, knowingly and with intent to defraud, devised and executed a scheme to obtain money by means of false representations and fraudulent and deceptive acts.

Specifically, the victim hired Laskey to prepare her tax returns and to handle her outstanding tax matters. Laskey told the victim that if she paid a lump sum of $22,453 to the IRS she would receive a penalty abatement of approximately $10,000. He further told her that the IRS preferred multiple money orders instead of a cashier's check. Using her 401K funds, the victim obtained 22 money orders for $1,000 each, plus one for $453, and gave them to Laskey, who promised to overnight them to the IRS.

In furtherance of his scheme, Laskey then informed the victim via e-mail that he had also sent the penalty abatement request to the IRS. Subsequently, Laskey showed her a letter which he had forged on IRS letterhead, purporting to be from Operations Manager Laura Fulmer and stating that the IRS had received her payment. The next day, Laskey called the victim from an unknown number, purporting to be Agent Coulsen from the IRS, confirming that the IRS had received the penalty abatement request and stating that it would be processed in six weeks. A day or two later, Laskey placed another call to the victim, again from an unknown number, purporting to be IRS Operations Manager Laura Fulmer and stating that she was going on vacation and would call back when she returned.

In reality, Laskey did not use the victim's funds to pay the IRS, nor did he ever file for a penalty abatement. Instead, he used the victim's funds for his own personal use.

After TIGTA special agents contacted Laskey regarding these matters, he approached the victim and told her that if she signed a promissory note stating that the $22,453 was a personal loan, he would repay her the money. He further instructed his attorney to e-mail the signed promissory note to TIGTA special agents in an attempt to willfully obstruct TIGTA's investigation.

Sentencing in this matter is scheduled for October 15, 2018. Laskey could face a maximum statutory sentence of 20 years' imprisonment.

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 Should Consider Modifying the Form 1040 to Increase Earned Income Tax Credit Participation by Eligible Tax Filers

The Earned Income Tax Credit (EITC) is a refundable tax credit used to encourage employment by low-income working families and individuals. Eligible individuals must file a tax return to receive it. In TY 2015, more than 27 million taxpayers received $67 billion in EITC. The IRS recently estimated that 5 million potentially eligible taxpayers do not claim the credit each year, resulting in $7.3 billion in unclaimed benefits annually. The IRS estimates that more than 1.7 million of these potentially eligible taxpayers filed a tax return but did not claim the credit.

In TY 2014, nearly 175,000 taxpayers received $82 million in EITC after responding to an IRS reminder notice; however, this only increased estimated taxpayer and dollar participation rates by less than one percentage point. Notices have a limited impact because they are issued to a small percentage of potentially eligible tax filers, and half of those notified do not respond. Modifying the tax return could increase overall participation and eliminate the need for reminder notices, saving the IRS an estimated $2 million annually.

Although the objective of the reminder notices is to increase EITC participation, the IRS has not specified a goal for participation rates in future years. Moreover, improved performance measures are needed to adequately assess program effectiveness.

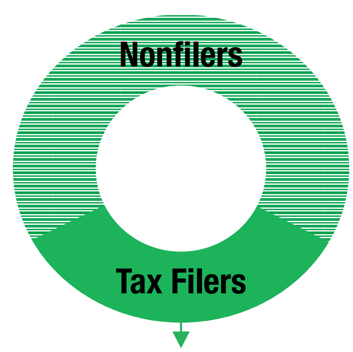
Recent versions of the reminder notice sent to taxpayers with children contained erroneous eligibility instructions. The error may have adversely affected a taxpayer's decision to respond or resulted in the credit being incorrectly denied. Although the IRS became aware of the error in July 2015, internal processes delayed the IRS from issuing a revised notice for almost two years. Moreover, the IRS did not notify taxpayers of the error.

TIGTA recommended that the Commissioner, Wage and Investment Division, evaluate alternative approaches to increase EITC participation and reduce costs. For example, the IRS should consider eliminating Schedule EIC, *Earned Income Credit*, and modifying Form 1040, *U.S. Individual Income Tax Return,* to collect necessary eligibility information instead of sending reminder notices. TIGTA also recommended that the IRS establish procedures for timely notifying taxpayers who have received reminder notices containing an error. Finally, TIGTA recommended that the IRS establish a specific objective for increasing EITC participation rates for eligible taxpayers as well as related performance measures to determine whether the established objectives have been achieved.

IRS management agreed with TIGTA's recommendations.
Reference No. IE-2018-R004

Controls Over Pocket Commissions Must Be Improved

Non-enforcement pocket commissions evidence the holder's specific authority and are an acceptable form of Government identification that some IRS employees are required to use when conducting business with taxpayers. The loss of control over a pocket commission increases the risk that it could be fraudulently used in a tax collection scam, to obtain official documents, or to gain entry to a Government office.



The IRS issues reminder notices to certain taxpayers who appear eligible after they have filed their tax returns.

TIGTA found that the controls over non-enforcement pocket commissions are ineffective, and as a result the IRS cannot account for all issued commissions. TIGTA surveyed 172 employees eligible for a pocket commission whom IRS records do not show as having been assigned one. Forty-nine of these employees responded that they had a commission. Based on our result from this statistical sample, TIGTA estimates that 2,996 IRS employees may have pocket commissions that are not recorded in official IRS records. TIGTA also sampled a second set of IRS employees shown as holding an active pocket commission and found that for 33 employees the information in the inventory did not match the information that the IRS had reported to TIGTA. Based on this statistical sample, TIGTA estimates that 2,024 (19 percent) active commission records may be inaccurate. Additionally, TIGTA found that the required supporting documents to record approval of commission issuance, completion of training on the use of the commission, and physical receipt of the commission were not available for the majority of the sample reviewed.

Several factors contribute to the current conditions that TIGTA observed. For example, the requirement for an annual reconciliation of pocket commission records has weakened over the years. Additionally, manually obtaining data from, or inputting data into, multiple standalone systems increases the risk for errors and omissions. Further, the lack of guidance on following up to obtain required supporting documents should be addressed.

TIGTA recommended that the Chief, Facilities Management and Support Services, conduct a physical inventory to establish an accurate starting point for establishing future control over pocket commissions. The Chief should also reinstate the requirement for an annual inventory and enhance procedures for issuing commissions and obtaining and maintaining commission documentation.

IRS management agreed with TIGTA's recommendations.
Reference No. 2018-IE-R005

Congressional Testimony

On April 17, 2018, Inspector General J. Russell George testified before the House Committee on Oversight and Government Reform, the Subcommittee on Health Care, Benefits and Administrative Rules, and the Subcommittee on Government Operations at a joint hearing titled *"Continued Oversight of the Internal Revenue Service."*

In his testimony, the Inspector General discussed the status of the 2018 tax return filing season, the IRS's efforts to implement the TCJA, and TIGTA's work to address other key management challenges facing the IRS.

One challenge that the IRS faces each year is the implementation of tax law changes. As noted earlier in this report, the TCJA includes 119 tax provisions that will result in significant changes to both business and individual income taxes.

The Bipartisan Budget Act of 2018, which was signed into law on February 9, 2018, presents the IRS with even greater challenges, the Inspector General testified. This legislation includes an additional 51 provisions that extend expired tax provisions and make further modifications to disaster relief provisions. The Inspector General described TIGTA's initial review of the IRS's efforts to plan for the implementation of the recent changes to the tax laws.

The Inspector General also discussed the challenges that the IRS faces with its information technology systems, including the expansion of technology-based services to provide taxpayer assistance and the modernization of its information technology infrastructure.

Other topics covered by the Inspector General in his testimony include:

- The IRS's efforts to combat identity theft and assist victims;
- Refund fraud involving use of prisoner SSNs;
- Improper refundable credit payments;
- Private debt collection;
- Awards and rehiring of employees with conduct and tax compliance issues;
- Excess IRS office space; and
- The IRS telephone impersonation scam.

On September 26, 2018, Deputy Inspector General Michael E. McKenney testified before the House Ways and Means Committee, Subcommittee on Oversight, at a hearing titled *"IRS Taxpayer Authentication: Strengthening Security While Ensuring Access."*

In his testimony, the Deputy Inspector General discussed the work that TIGTA has completed to address the IRS's ability to deploy secure electronic authentication of its online applications and protect taxpayer data from unauthorized access.

The IRS relies extensively on its computer systems to support both its financial and mission-related operations. Recent cyber attacks against the IRS have illustrated that bad actors are continually seeking new ways to attack and exploit IRS systems. These include the 2015 data breach of the IRS's Get Transcript application and the 2017 breach of the IRS's Data Retrieval Tool on the Department of Education's FAFSA. The IRS has found that, with each systemic weakness it closes, criminals have discovered another means to access sensitive and confidential tax information from the IRS.

After the Get Transcript data breach was discovered in May 2017, TIGTA assessed the IRS's efforts to authenticate taxpayer identities when online services are provided to taxpayers and has made a series of corrective recommendations to the agency. The IRS agreed with TIGTA's audit recommendations and took positive steps to provide more secure authentication, including the implementation of two-factor authentication and the strengthening of application and network controls.

The risk of unauthorized access to tax accounts will continue to be significant as the IRS expands the online tools it makes available to taxpayers. TIGTA is currently evaluating whether the IRS has properly implemented secure electronic authentication controls in accordance with Federal standards for public access to IRS online systems.

Audit Statistical Reports

Reports With Questioned Costs

TIGTA issued one audit report with questioned costs during this semiannual reporting period. The phrase "questioned costs" means costs that are questioned because of:

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

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

Reports With Questioned Costs

Report Category	Number	Questioned Costs[22] (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	4	$1,963	$0
2. Reports issued during the reporting period	1	$13	$0
3. Subtotals (Item 1 plus Item 2)	**5**	**$1,977**[23]	**$0**
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	2	$124	$0
b. Value of costs not disallowed	2	$1,375	$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)[24]	**2**	**$477**	**$0**
6. Reports with no management decision within six months of issuance	2	$477	$0

22 "Questioned costs" includes "unsupported costs."
23 The difference between the subtotal and component numbers is due to rounding.
24 One of the reports with questioned costs contains both disallowed costs and costs not disallowed so reports will not total properly.

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.[25] 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.*, EITC; or
- Any other savings that are specifically identified.

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

Reports With Recommendations That Funds Be Put to Better Use

Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	0	$0
2. Reports issued during the reporting period	2	$432,023
3. Subtotals (Item 1 plus Item 2)	**2**	**$432,023**
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	$432,023
ii. Based on proposed legislative action	0	$0
b. Value of recommendations to which management did not agree	0	$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	**0**	**$0**
6. Reports with no management decision within six months of issuance	0	$0

25 See Appendix II for identification of audit reports involved.

Reports With Additional Quantifiable Impact on Tax Administration

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

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

Revenue Protection: 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, record keeping, 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 issues that affect more than one outcome measure category.

Reports With Additional Quantifiable Impact on Tax Administration

Outcome Measure Category	Number of Reports[26]	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	7	37,499	$1,959,328
Revenue Protection	1	0	$1,039
Reduction of Burden on Taxpayers	5	75,298	$0
Taxpayer Rights and Entitlements at Risk	6	15,376	$0
Taxpayer Privacy and Security	3	1,116,093	$0
Inefficient Use of Resources	1	0	$1,589
Reliability of Management Information	9	0	$51,700,000
Protection of Resources	1	0	$221

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

- Increased Revenue: Reference Numbers 2018-30-042, 2018-30-060, 2018-30-073, 2018-30-072, 2018-30-071, and 2018-30-081;
- Reduction of Burden on Taxpayers: Reference Number 2018-30-077;
- Taxpayer Privacy and Security: Reference Number 2018-40-062; and
- Reliability of Management Information: Reference Number 2018-30-074.

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

- Revenue Protection: Reference Number 2018-30-042;
- Reduction of Burden on Taxpayers: Reference Number 2018-30-079;
- Taxpayer Privacy and Security: Reference Numbers 2018-10-058 and 2018-30-079;
- Taxpayer Rights and Entitlements: Reference Numbers 2018-10-058, 2018-30-074, and 2018-30-079; and
- Reliability of Information: Reference Numbers 2018-10-020, 2018-10-037, 2018-30-040, 2018-20-041, 2018-30-046, 2018-20-063, 2018-20-066, and 2018-30-079.

26 See Appendix II for identification of audit reports involved.

Investigations Statistical Reports[27]

Significant Investigative Achievements

(April 1, 2018 – September 30, 2018)

Complaints/Allegations Received by TIGTA	
Complaints Against IRS Employees	2,444
Complaints Against Non-Employees	3,486
Total Complaints/Allegations	**5,930**
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	901
In Process Within TIGTA[28]	523
Referred to IRS for Action	621
Referred to IRS for Information Only	961
Referred to a Non-IRS Entity[29]	0
Closed With No Referral	726
Closed Associated With Prior Investigation	1,987
Closed With All Actions Completed	211
Total Complaints	**5,930**
Investigations Opened and Closed	
Total Investigations Opened	1,334
Total Investigations Closed	1,285
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	$1,032,943
Contract Fraud and Overpayments Recovered	$0
Court-Ordered Fines, Penalties, and Restitution	$110,780,082
Out-of-Court Settlements	$0
Potentially Compromised by Bribery	$0
Tax Liability of Taxpayers Who Threaten and/or Assault IRS Employees	$10,337,312
IRS Assets and Resources Protected Against Malicious Loss	$0
Total Financial Accomplishments	**$122,150,337**

27 Includes the new reporting requirements under the Inspector General Empowerment Act (IGEA) of 2016, Pub. L. No. 114-317, 130 Stat. 1595.
28 Complaints for which final determination had not been made at the end of the reporting period.
29 A non-IRS entity includes other law enforcement entities or Federal agencies.

Status of Closed Criminal Investigations

Criminal Referral	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	10	78	**88**
Referred – Declined for Prosecution	205	155	**360**
Referred – Pending Prosecutorial Decision	11	31	**42**
Total Criminal Referrals[30]	**226**	**264**	**490**
No Referral	**316**	**519**	**835**

Criminal Dispositions[31]

Criminal Disposition	Employee	Non-Employee	Total
Guilty	7	43	50
Nolo Contendere (no contest)	1	0	1
Pretrial Diversion	1	2	3
Deferred Prosecution[32]	1	3	4
Not Guilty	0	0	0
Dismissed	2	1	3
Total Criminal Dispositions	**12**	**49**	**61**

Administrative Dispositions on Closed Investigations[33]

Administrative Disposition	Total
Removed/Terminated	30
Suspended/Reduction in Grade	76
Resigned/Retired/Separated Prior to Adjudication	81
Oral or Written Reprimand/Admonishment	131
Clearance Letter/Closed, No Action Taken	93
Alternative Discipline/Letter With Cautionary Statement/Other	190
Non-Employee Actions[34]	362
Total Administrative Dispositions	**963**

30 Criminal referrals include both Federal and State dispositions.

31 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 previous Status of Closed Criminal Investigations table.

32 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.

33 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.

34 Administrative actions taken by the IRS against non-IRS employees (*e.g.*, contractors).

Summary of Investigative Reports and Criminal Referrals

Criminal Referral Breakdown (April 1, 2018 – September 31, 2018)	
Number of Investigative Reports Issued	**490**
Referred to the Department of Justice for Criminal Prosecution	472
Referred to State/Local Prosecuting Authorities	18
Number of Indictments and Criminal Informations	**84**
Indictments	72
Criminal Informations	12

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

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[35] Investigations Involving Internal Revenue Service Senior Government Employees[36]

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 ordered an unauthorized procurement for training services with a contractor with whom he/she may have had a personal relationship, and whom he/she allegedly insisted on using, despite knowing the IRS already paid for the same services.	Not Substantiated	Closed without action letter	No referral made	N/A	N/A
A senior Government employee was alleged to have engaged in a conflict of interest by showing favoritism towards and engaging in improper communications with a business. Additionally, an allegation was developed that this senior Government employee and a non-senior level Government employee had violated the provisions of the Federal Procurement Integrity Act by making unauthorized disclosures of contractor-source selection information.	Initial allegation not substantiated Developed allegation substantiated	Letter of caution	No referral made	N/A	N/A
A senior Government employee was arrested for driving while intoxicated.	Substantiated	Closed without action letter	No referral made	N/A	N/A
A senior Government employee was alleged to have illegally leaked Grand Jury information to the media.	Substantiated	Suspension	Declined	04/05/17	04/05/17
A senior Government employee was alleged to have abused his/her position by attempting to terminate an IRS contractor because the contractor had filed a TIGTA complaint against the senior Government employee's rumored personal friend, and the friend was subsequently terminated.	Substantiated	Suspension	No referral made	N/A	N/A
A senior Government employee reported the theft and/or loss of his/her IRS-issued laptop and docking station.	Substantiated	Other	No referral made	N/A	N/A
A senior Government employee was arrested during a physical altercation.	Substantiated	Closed without action letter	No referral made	N/A	N/A
A senior Government employee was alleged to have made an unauthorized disclosure of information that was protected by the Privacy Act.	Substantiated	Closed without action letter	Declined	07/16/18	07/18/18
A senior Government employee was alleged to have submitted an initial travel voucher claiming three nights of hotel per diem for an official meeting, without having provided supporting documentation.	Substantiated	Admonished/ Reprimanded	Declined	04/30/18	04/30/18
A senior Government employee was alleged to have ordered IRS Collections employees to inappropriately release a lien on a business owned by an alleged major donor to a U.S. Congressional Representative.	Not Substantiated	Clearance letter	No referral made	N/A	N/A

35 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.

36 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).

Inspections and Evaluations Statistical Reports

Reports With Questioned Costs

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

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

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

Reports With Questioned Costs

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

Reports With Additional Quantifiable Impact on Tax Administration

In addition to questioned costs and funds put to better use, the Office of Inspections and Evaluations has identified measures that demonstrate the value of 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 Inspections and Evaluations' 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, record keeping, 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 inspection and evaluation recommendations. Actual results will vary depending on the timing and extent of management's implementation of the corresponding corrective actions, and the number of accounts or subsequent business activities affected as of the dates of implementation. Also, a report may have issues that affect more than one outcome measure category.

Reports With Additional Quantifiable Impact on Tax Administration

Outcome Measure Category	Number of Reports	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	0	0	$0
Revenue Protection	0	0	$0
Reduction of Burden on Taxpayers	0	0	$0
Taxpayer Rights and Entitlements at Risk	0	0	$0
Taxpayer Privacy and Security	0	0	$0
Inefficient Use of Resources	0	0	$0
Reliability of Management Information	1[37]	0	$51,700,000
Protection of Resources	0	0	$0

37 Report reference number 2018-IE-R005.

Reports With Significant Unimplemented Corrective Actions

The Inspector General Act of 1978, as amended, requires identification of significant recommendations described in previous semiannual reports for which corrective actions have not been completed. The following list is based on information from the IRS Office of Management Control's automated tracking system maintained by Treasury management officials.[38]

Reference Number	Issued[1]	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2018-IE-R002	February 2018		**ADDITIONAL ACTIONS ARE NEEDED TO MAKE THE WORKER MISCLASSIFICATION INITIATIVE WITH THE DEPARTMENT OF LABOR A SUCCESS**
		12/15/18	F-1, R-1, P-1: Review the Memorandum of Understanding (MOU) and determine if any changes, revisions, or a recommendation for termination are appropriate.
		3/15/20	F-1, R-1, P-2: Subject to the decision to continue the MOU, conduct a program review one year after the MOU is revised to ensure the duties and responsibilities are executed as outlined in the revised MOU. Based on the results of the program review, appropriate recommendations will be made and implemented as needed.
		12/15/18	F-2, R-1, P-1: Discuss development of a standardized referral form with the Department of Labor.
		12/15/18	F-3, R-1, P-1: Subject to the decision to continue the MOU, develop measurable goals and related performance measures to be included in the revised MOU.

38 The Office of Inspections and Evaluations has previously designated one report with unimplemented recommendations as "Sensitive But Unclassified (SBU)." This SBU report concerns physical security of IRS facilities or 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 this report.

Appendix I
Statistical Reports – Other
Reports With Significant Unimplemented Corrective Actions[39]

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.[40,41]

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2007-10-068	May 2007		**INEFFICIENCIES IN PROCESSING OPERATIONS ASSISTANCE REQUESTS CAUSED TAXPAYERS UNNECESSARY DELAYS**
		6/30/19	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.
2008-20-176	September 2008		**THE OFFICE OF RESEARCH, ANALYSIS, AND STATISTICS NEEDS TO ADDRESS COMPUTER SECURITY WEAKNESSES**
		9/30/19	F-1, R-5: Ensure that audit and accountability controls are sufficient by requiring audit logs to be maintained a minimum of six years and to be periodically reviewed by the security officer.
2012-1C-003	December 2011		**CONTRACTOR'S FISCAL YEAR 2007 INCURRED COST PROPOSAL**
		12/15/18	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: $15,732.
2014-10-033	June 2014		**THE TAXPAYER ADVOCATE SERVICE CAN IMPROVE THE PROCESSING OF SYSTEMIC BURDEN CASES**
		11/30/18	F-1, R-1: Reissue guidance to explain the requirement to only contact authorized representatives when applicable, and emphasize this in future training.
		11/30/18	F-1, R-3: Review the results of sample findings and incorporate lessons learned into future training.

39 Acronyms used in this report are defined in the table titled "Acronyms Used Exclusively in Appendices."

40 This summary data does not include reports and/or recommendations 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.

41 The Office of Audit has previously designated a report with unimplemented recommendations as "Sensitive But Unclassified (SBU)." This SBU report concerned security of IRS computer systems. There are no potential cost savings associated with any unimplemented recommendations from this report.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
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.
2016-40-009	December 2015		**PROCESSES ARE NEEDED TO ENSURE RELIABILITY OF FEDERAL UNEMPLOYMENT TAX CERTIFICATION FILES AND TO WORK MULTI-STATE CASES**
		On Hold[42]	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 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.
			Potential Increased Revenue: $19,700,000.
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 pay 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 Company (LLC) indicator on the business tax account to ensure that individual tax refunds are not offset to the associated LLC's business tax debt.
2015-1C-040	July 2015		**PROPOSED AMOUNTS ON UNSETTLED FLEXIBLY PRICED CONTRACTS FOR FISCAL YEAR 2008**
		2/11/19	F-1, R-1: Use the DCAA report in administering and closing out contracts.
			Potential Cost Savings: $461,653.
2016-30-089	September 2016		**THE LARGE BUSINESS AND INTERNATIONAL DIVISION'S STRATEGIC SHIFT TO ISSUE-FOCUSED EXAMINATIONS WOULD BENEFIT FROM RELIABLE INFORMATION ON COMPLIANCE RESULTS**
		10/15/18	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.
2016-40-078	September 2016		**DUE TO THE LACK OF ENFORCEMENT, TAXPAYERS ARE AVOIDING BILLIONS OF DOLLARS IN BACKUP WITHHOLDING**
		11/15/18	F-3, R-1: Update payer identification and notification processes to include Forms 1099-G, Certain Government Payments, with missing or incorrect payee TINs.
2017-30-010	October 2016		**EMPLOYEES SOMETIMES DID NOT ADHERE TO E-MAIL POLICIES WHICH INCREASED THE RISK OF IMPROPER DISCLOSURE OF TAXPAYER INFORMATION**
		10/15/20	F-3, R-1: Update the EEFax system to allow encrypted messages to be sent to the EEFax system server.

42 Except for two reports, recommendations designated as "On Hold" were agreed to by the IRS, but action was deferred pending the availability of funds. For reports 2018-20-019 (F-1, R-2) and 2017-40-085 (F-3, R-1), the recommendations were agreed to by the IRS, but were placed on hold because the IRS is awaiting input from another agency.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2017-40-011	November 2016		**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**
		On Hold	F-1, R-2: Implement an automated process to redact Personally Identifiable Information (PII) on copies of fraudulent returns provided to identity theft victims.
2017-10-018	March 2017		**STATUS OF DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT IMPLEMENTATION EFFORTS**
		4/15/19	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.
2017-43-022	March 2017		**AFFORDABLE CARE ACT: VERIFICATION OF PREMIUM TAX CREDIT CLAIMS DURING THE 2016 FILING SEASON**
		On Hold	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.
			Potential Cost Savings: $7,676.
2017-40-026	March 2017		**INCONSISTENT PROCESSES AND PROCEDURES RESULT IN MANY VICTIMS OF IDENTITY THEFT NOT RECEIVING IDENTITY PROTECTION PERSONAL IDENTIFICATION NUMBERS**
		2/15/19	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.
		10/15/18	F-4, R-2: Develop an outreach strategy to increase taxpayer awareness in identified locations of the Opt-In Program.
2017-40-037	May 2017		**IMPROVEMENTS ARE NEEDED TO ENSURE THAT TAX ACCOUNTS ON THE AUTOMATED NON-MASTER FILE ARE ACCURATELY PROCESSED**
		On Hold	F-1, R-1: Correct Automated Non-Master File (ANMF) programming to compute and assess the Failure to File penalty on Form 1040NR, U.S. Nonresident Alien Income Tax Return, accounts in which the Taxpayer Identification Number (TIN) is an Employer Identification Number (EIN).
		On Hold	F-1, R-2: Correct ANMF programming to use the correct date when computing the Failure to Pay penalty. In addition, programming should be corrected to ensure that the proper penalty rate is used to compute the penalty amount.
			Potential Increased Revenue: $354,153.
2017-20-024	June 2017		**INFORMATION TECHNOLOGY: IMPROVEMENTS ARE NEEDED IN ENTERPRISE-WIDE DISASTER RECOVERY PLANNING AND TESTING**
		7/15/20	F-2, R-1: Collaborate with the IRS business operating divisions to reach consensus regarding the maximum tolerable downtime or recovery time objective for each mission-essential function.
2017-40-031	June 2017		**THE NUMBER OF EMPLOYMENT-RELATED IDENTITY THEFT VICTIMS IS SIGNIFICANTLY GREATER THAN IDENTIFIED**
		On Hold	F-1, R-2: Correct programming as needed to ensure that the employment identity theft marker is placed on all victims' tax accounts for Individual Taxpayer Identification Number (ITIN)/Social Security Number (SSN) mismatches on e-filed tax returns.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2017-40-038	July 2017		**CASE SELECTION PROCESSES RESULT IN BILLIONS OF DOLLARS IN POTENTIAL EMPLOYER UNDERREPORTED TAX NOT BEING ADDRESSED**
		5/15/19	F-2, R-1: 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.
		On Hold	F-3, R-1: Establish a systemic process to match data fields to perfect unpostable Forms W-3.
2017-20-032	August 2017		**THE INTERNAL REVENUE SERVICE DOES NOT HAVE A CLOUD STRATEGY AND DID NOT ADHERE TO FEDERAL POLICY WHEN DEPLOYING A CLOUD SERVICE**
		12/15/18	F-1, R-2: Ensure that the process of managing the IRS's cloud inventory is formalized using automated methods and updated on a periodic and ongoing basis as part of the enterprise-wide cloud strategy.
2017-30-048	August 2017		**ADDITIONAL CONTROLS ARE NEEDED TO HELP ENSURE THAT NONRESIDENT ALIEN INDIVIDUAL PROPERTY OWNERS COMPLY WITH TAX LAWS**
		On Hold	F-1, R-1: Request that a revision be made to Form 1040NR to enable nonresident aliens to make an election under I.R.C. § 871(d) and revise processing procedures to ensure that the IRS records the election.
		9/15/19	F-2, R-1: Develop a compliance initiative addressing nonresident aliens who do not report rental income generated by real property they own in the United States.
			Potential Increased Revenue: $18,258,884.
2017-20-057	September 2017		**WHILE RELEASE 1.0 OF THE WEB APPLICATIONS SYSTEM WAS SUCCESSFULLY DEPLOYED, SEVERAL FACTORS CONTRIBUTED TO IMPLEMENTATION DELAYS**
		10/15/18	F-1, R-2: Streamline the current Unified Work Request process by incorporating processes that support the needs of the Agile[43] development methodology.
2017-40-085	September 2017		**FURTHER ACTIONS ARE NEEDED TO REDUCE THE RISK OF EMPLOYMENT TAX FRAUD TO BUSINESSES THAT USE THE SERVICES OF PROFESSIONAL EMPLOYER ORGANIZATIONS**
		12/15/18	F-2, R-1: Establish timeliness standards for reviewing applications.
		On Hold	F-3, R-1: Establish processes and procedures to reduce unnecessary resources expended notifying employers of an address change when programming incorrectly identifies an address change resulting from minor formatting revisions.
2017-20-062	September 2017		**THE INTERNAL REVENUE SERVICE IS NOT IN COMPLIANCE WITH FEDERAL REQUIREMENTS FOR SOFTWARE ASSET MANAGEMENT**
		9/15/19	F-1, R-1: Establish executive governance for Software Asset Management (SAM) within the IRS which acts as a centralized group to ensure that effective and knowledgeable decisions are being made timely by authorized personnel.
		9/15/19	F-1, R-2: Establish a SAM framework using Federal requirements and industry best practices as guidelines.
		9/15/19	F-1, R-3: 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.

43 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.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2017-20-061	September 2017		**THE EXTERNAL NETWORK PERIMETER WAS GENERALLY SECURE, THOUGH THE SECURITY OF SUPPORTING COMPONENTS COULD BE IMPROVED**
		2/15/19	F-2, R-1: Improve processes to ensure that all vulnerability findings are reviewed, analyzed, and appropriately addressed within the required time frames.
		2/15/19	F-2, R-2: Ensure that the Security Regulatory Compliance Operations (SRCO) group improves its remediation tracking processes to include tracking the age of the vulnerability, creating monthly metrics to be used by management to assess the IRS's progress in vulnerability remediation, and implementing an escalation process that provides management visibility.
2017-40-088	September 2017		**IMPROVEMENTS ARE NEEDED TO ENSURE THAT THE VOLUNTEER INCOME TAX ASSISTANCE GRANT PROGRAM EXTENDS TAX RETURN PREPARATION TO UNDERSERVED POPULATIONS**
		10/15/18	F-1, R-1: Develop processes and procedures to measure the extent to which the Volunteer Income Tax Assistance (VITA) Grant Program increases coverage to underserved populations.
		10/15/18	F-3, R-1: Ensure that the VITA Grant Program's internal guidelines are current and consistent with publications for VITA grantees.
2017-10-056	September 2017		**IMPROVEMENTS ARE NEEDED IN REPORTING AND PROCESSING PHYSICAL SECURITY INCIDENTS**
		10/15/18	F-1, R-1: Provide all IRS and contract employees with additional incident reporting training and reminders of incident reporting requirements.
2017-30-082	September 2017		**PROCEDURES FOR RETIREMENT ACCOUNT AND THRIFT SAVINGS PLAN LEVIES ARE NOT ALWAYS FOLLOWED BY REVENUE OFFICERS**
		10/15/18	F-2, R-1: Consider revising Form 668-A, Notice of Levy, to more clearly indicate whether the levy is intended for a lump sum levy on a retirement account.
2017-30-084	September 2017		**IMPROVEMENT IS NEEDED IN COMPLIANCE EFFORTS TO IDENTIFY UNSUPPORTED CLAIMS FOR FOREIGN TAX CREDITS**
		On Hold	F-1, R-2: Validate the Foreign Tax Credits reported in all tax returns in the Form 1120 series.
		3/15/19	F-4, R-1: Evaluate the Functional Specification Packages to identify programming changes needed to calculate the amount of the Foreign Tax Credit limitation and account for mixed-component returns.
2017-30-078	September 2017		**A SIGNIFICANTLY REDUCED AUTOMATED SUBSTITUTE FOR RETURN PROGRAM NEGATIVELY AFFECTED COLLECTION AND FILING COMPLIANCE**
		10/15/18	F-3, R-2: 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.
		10/15/18	F-4, R-1: Track and measure the ASFR closure results for abatement rates, refund rates, and collection rates and categorize the results by types of closures, including Refund Hold and high-net tax due, to better measure ASFR productivity.
2018-10-004	November 2017		**IMPROVED CONTROLS ARE NEEDED TO ACCOUNT FOR THE RETURN OF CONTRACTOR EMPLOYEE IDENTIFICATION CARDS**
		10/15/18	F-1, R-1: Develop a process to provide reasonable assurance that Smart ID card serial numbers are documented on Forms 13716-A, Request for ID Media/Access Card for Contractor Employees, and destruction logs when contractor employees separate, retain this documentation to enable reconciling unreturned Smart ID cards, and require managers to assure this process is followed.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-10-006	November 2017		**FISCAL YEAR 2017 DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT REPORTING COMPLIANCE**
		10/15/18	F-1, R-1: Develop and implement policies and procedures that: (1) clarify the definition of DATA Act elements and associated data fields in the Procurement for Public Sector function (successor system to the IRS Integrated Procurement System), the Award Submission Portal, and the Federal Procurement Data System-Next Generation (FPDS-NG); (2) specify documentation that should be maintained in support of these elements in grant and contract files; and (3) provide mandatory training to all contracting officers and grant program staff to ensure understanding.
		10/15/18	F-1, R-2: Enhance quality assurance procedures to improve the accuracy of the DATA Act procurement and grant attribute information and provide additional assurance that contract and grant files contain current and appropriate documentation.
2018-40-003	November 2017		**PROCESSES DO NOT ALWAYS ENSURE THAT ELECTRONIC FILING IDENTIFICATION NUMBERS ARE ASSIGNED TO QUALIFIED APPLICANTS OR DEACTIVATED WHEN REQUIRED**
		10/15/18	F-1, R-2: Develop a process to verify citizenship status for all prior and current Principals and Responsible Officials for whom Social Security Administration citizenship records are blank, including the 1,494 individuals TIGTA identified.
		10/15/18	F-2, R-1: Develop processes to verify the accuracy of partnership reporting on prior e-file applications as well as new partnership e-file applications to ensure compliance with program requirements.
2018-40-010	January 2018		**PROCESSES NEED TO BE IMPROVED TO IDENTIFY INCOMPLETE AND FRAUDULENT APPLICATIONS FOR INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS**
		On Hold	F-3, R-1: Modify the Real-Time System (RTS) consistency and validity checks to identify all duplicate uses of supporting documents.
		On Hold	F-3, R-2: Ensure programming changes are made to require mandatory review when the RTS alerts tax examiners that duplicate supporting documents were previously used to obtain an ITIN.
		On Hold	F-3, R-3: Establish systemic controls in the RTS to revoke ITINs determined to be issued in error after the three-day quality review period (i.e., the system should not accept a reject action).
		2/15/19	F-3, R-4: Review the 95,928 ITINs TIGTA identified that were issued with a rejected application and take the actions necessary to revoke the ITINs if appropriate.
		2/15/19	F-3, R-5: Review the 44,532 ITINs TIGTA identified that were issued to individuals and the 10,924 ITINs TIGTA identified that were issued to individuals who used duplicate supporting documents to determine the validity of the ITINs and take the actions necessary to revoke those ITINs that are determined to be invalid.
		2/15/19	F-4, R-1: Review the 8,110 ITINs identified with a revoked status in the RTS but still valid on the Individual Master File (IMF) and take necessary action to change the ITINs to invalid.
		2/15/19	F-4, R-2: Review the 1,237 ITINs identified with a revoked status in the RTS but still active on the NAP and take necessary action to remove the ITIN from the National Account Profile (NAP).
		On Hold	F-4, R-3: Modify processes to systemically remove all revoked ITINs from the NAP and update the IMF.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-40-010	January 2018		**PROCESSES NEED TO BE IMPROVED TO IDENTIFY INCOMPLETE AND FRAUDULENT APPLICATIONS FOR INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS**
		On Hold	F-4, R-4: Develop processes and procedures to identify deceased ITIN holders and lock their tax accounts if they exist.
		10/15/18	F-5, R-3: Ensure that the Certified Acceptance Agent-completed forensic training includes instruction on how to verify the security features on all original documents that the IRS accepts as proof of identity.
2018-40-011	January 2018		**SOME LEGAL REQUIREMENTS TO DEACTIVATE INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS HAVE NOT BEEN MET**
		On Hold	F-2, R-1: Revise computer programming to deactivate ITINs when the Form W-7, Application for IRS Individual Taxpayer Identification Number, was rejected and the ITIN status field in the ITIN RTS is blank.
		1/15/19	F-2, R-2: Deactivate the 89,105 ITINs TIGTA identified that should have been deactivated.
		1/15/19	F-3, R-5: Ensure that the IRS Master File accounts associated with the remaining 2,808 ITINs with an active IRS Master File Account are updated to reflect the inactive status of the ITIN.
2018-10-005	January 2018		**THE INTERNAL REVENUE SERVICE HAS IMPLEMENTED SOME SCREENING PROCEDURES, BUT EMPLOYEES WITH RECENT TAX AND CONDUCT ISSUES CONTINUE TO RECEIVE AWARDS**
		1/15/19	F-1, R-1: Expand misconduct screening to consider employees with any level of disciplinary action prior to issuing awards.
		1/15/19	F-1, R-2: Examine the Federal tax compliance status of all employees before issuing awards.
2018-40-012	January 2018		**RESULTS OF THE 2017 FILING SEASON**
		On Hold	F-4, R-1: Establish processes to use its math error authority to deny all e-filed and paper American Opportunity Tax Credit claims for which the taxpayer does not provide the institution Employer Identification Number for each student claimed on the return. Potential Cost Savings: $3,297,127,798.
		On Hold	F-5, R-1: Modify Form 2441 to ask taxpayers whether they fall under one of the exceptions to be able to file as Married Filing Separately, and revise computer programs to allow the credit only when a taxpayer attests that he or she meets the exception by checking the applicable box.
2018-20-007	February 2018		**ELECTRONIC AUTHENTICATION PROCESS CONTROLS HAVE BEEN IMPROVED, BUT HAVE NOT YET BEEN FULLY IMPLEMENTED**
		9/15/19	F-2, R-2: Ensure that the eAuthentication audit log captures adequate data to allow for tracking and analysis of user activity.
		10/15/18	F-3, R-1: Ensure that IRS policy is met in regards to audit log report generation and review, that actionable events and threshold triggers are kept current, and that reports are useful for investigation and response to suspicious activities.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-40-013	February 2018		**ACTIONS ARE NEEDED TO REDUCE THE RISK OF FRAUDULENT USE OF EMPLOYER IDENTIFICATION NUMBERS AND TO IMPROVE THE EFFECTIVENESS OF THE APPLICATION PROCESS**
		On Hold	F-2, R-1: Correct programming to reject EIN applications when an EIN has previously been assigned to the same sole proprietor and to reject applications when IRS data indicate that the sole proprietor is deceased.
		10/15/18	F-2, R-2: Review the 206,920 EINs incorrectly assigned as duplicates to sole proprietors and the 20,437 assigned to sole proprietors who are deceased. Determine if the EINs should be merged or deactivated.
		On Hold	F-3, R-1: Perform an assessment to determine how an additional field could be added to the Business Master File so that both the decedent SSN and a responsible party TIN can be captured for estates and trusts.
		On Hold	F-3, R-2: Revise internal procedures, application instructions, etc., to require that estate and trust applicants applying on paper provide a responsible party.
		10/15/18	F-3, R-4: Ensure the validity of the 71,633 EINs TIGTA identified that were assigned to responsible parties.
		On Hold	F-3, R-5: Develop programming to reject estate applications if the decedent TIN is not that of a deceased individual.
		10/15/18	F-3, R-6: Ensure the validity of the 26,889 EINs TIGTA identified as being assigned to estates for which the decedent TIN was that of a living individual.
		10/15/18	F-3, R-7: Establish systemic processes for the Modernized EIN to alert system administrators when error code counts reach certain thresholds based on historical trends.
		12/15/18	F-3, R-8: Revise procedures to not allow applicants to designate another business as the responsible party.
		10/15/18	F-4, R-2: Develop processes and procedures to ensure that tax examiners accurately process paper Forms SS-4. This should include additional employee training and performing additional management quality reviews.
2018-40-013	February 2018		**ACTIONS ARE NEEDED TO REDUCE THE RISK OF FRAUDULENT USE OF EMPLOYER IDENTIFICATION NUMBERS AND TO IMPROVE THE EFFECTIVENESS OF THE APPLICATION PROCESS**
		10/15/18	F-4, R-3: Update internal guidelines to include procedures for processing EIN applications associated with Form 1041 (special trusts) and requests for EINs from individuals who are minors.
		On Hold	F-5, R-1: Develop processes and refer matches to CI for further review.
2018-40-015	February 2018		**EMPLOYER NONCOMPLIANCE WITH WAGE REPORTING REQUIREMENTS SIGNIFICANTLY REDUCES THE ABILITY TO VERIFY REFUNDABLE TAX CREDIT CLAIMS BEFORE REFUNDS ARE PAID**
		10/15/18	F-1, R-1: Review the 4,509 tax returns that TIGTA identified for which the IRS incorrectly allowed the Child Tax Credit (CTC), Additional Child Tax Credit (ACTC), Earned Income Tax Credit (EITC), and American Opportunity Tax Credit (AOTC) and take the steps necessary to recover the almost $9.8 million paid to taxpayers in error. Potential Cost Savings: $8,902,066.
		On Hold	F-3, R-1: Correct programming errors that resulted in the incorrect calculation of ITIN issuance dates and ensure that the Real Time System and the NAP are updated with the correct issuance date.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-40-015	February 2018		**EMPLOYER NONCOMPLIANCE WITH WAGE REPORTING REQUIREMENTS SIGNIFICANTLY REDUCES THE ABILITY TO VERIFY REFUNDABLE TAX CREDIT CLAIMS BEFORE REFUNDS ARE PAID**
		On Hold	F-3, R-2: Identify all ITINs with a missing issuance date on the NAP and ensure that the NAP is updated with the correct issuance date.
2018-40-016	February 2018		**MOST EMPLOYMENT IDENTITY THEFT VICTIMS HAVE NOT BEEN NOTIFIED THAT THEIR IDENTITIES ARE BEING USED BY OTHERS FOR EMPLOYMENT**
		11/15/18	F-1, R-1: Send the CP01E, Employment Related Identity Theft Notice, to the 458,658 repeat victims identified in Processing Year 2017 informing them that their SSN was used by another person to obtain employment.
		12/15/18	F-2, R-1: Reverse the employment identity theft marker placed on the 15,168 taxpayers' accounts and notify them that the prior notice was sent erroneously.
		On Hold	F-2, R-2: Revise ITIN/SSN mismatch programming to ensure that it does not place the employment identity theft marker on the accounts of SSN owners who are spouses of ITIN holders.
		12/15/18	F-2, R-3: Identify instances, prior to Processing Year (PY) 2017, in which the ITIN/SSN mismatch process erroneously placed the employment identity theft marker on the tax accounts of SSN owners who are spouses of ITIN holders. The marker should be reversed on those accounts.
2018-40-014	March 2018		**TRANSCRIPT DELIVERY SYSTEM AUTHENTICATION AND AUTHORIZATION PROCESSES DO NOT ADEQUATELY PROTECT AGAINST UNAUTHORIZED RELEASE OF TAX INFORMATION**
		12/15/18	F-2, R-1: Implement processes and procedures to ensure that legitimate taxpayers authorize the release of their tax transcripts. In addition, discontinue offering tax transcripts via those processes in which the IRS cannot confirm whether legitimate taxpayers authorized the release of their tax transcript.
		On Hold	F-4, R-1: Redact sensitive information from tax transcripts.
2018-43-022	March 2018		**AFFORDABLE CARE ACT: PROCESSES TO IDENTIFY EMPLOYERS SUBJECT TO THE EMPLOYER SHARED RESPONSIBILITY PAYMENT NEED IMPROVEMENT**
		10/15/18	F-1, R-1: Ensure that the data used to identify Applicable Large Employers potentially liable for the Employer Shared Responsibility Payment are complete, and refine the business rules to use the most current and correct Form 1094-C data when identifying potentially liable Applicable Large Employers. Potential Increased Revenue: $111,899,153.
		2/15/19	F-1, R-2: Ensure needed enhancements are made to the Service Center Recognition Image Processing System (SCRIPS) so that it accurately captures Forms 1094-C and 1095-C data during scanning.
		3/15/19	F-1, R-3: Improve the mail sorting process and provide additional training and guidance to employees to ensure that related paper Forms 1094 and Forms 1095 remain together during processing.
		2/15/20	F-3, R-1: Develop a Service-wide TIN validation strategy to reduce the number of TIN validation systems and programs to streamline and consolidate TIN validation efforts.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-30-023	March 2018		**THE UNCERTAIN TAX POSITION STATEMENT DOES NOT CONTAIN SUFFICIENT INFORMATION TO BE USEFUL IN COMPLIANCE EFFORTS**
		7/15/19	F-1, R-1: Consider the feasibility of either modifying Schedule UTP, Uncertain Tax Position Statement, to include information needed to be useful for its intended purpose or removing the Schedule UTP filing requirement.
2018-20-019	March 2018		**SYSTEM CHANGES RESULTED IN SUCCESSFULLY PROCESSED THIRD-PARTY INCOME DOCUMENTS, BUT PROCESSES FOR USING THE INFORMATION NEED IMPROVEMENT**
		On Hold	F-1, R-2: Determine the feasibility of eliminating automatic extensions to file Form 1099-MISC. If the automatic extension is eliminated, ensure that a Unified Work Request is created to implement the necessary programming modifications.

Other Statistical Reports

The Inspector General Empowerment Act of 2016 requires Inspectors General to address the following issues for the Offices of Audit and Inspections and Evaluations:[44]

Issue	Result for TIGTA
Interference/Access to Information Report any attempt to interfere with the independence of TIGTA, including: budget constraints designed to limit the capabilities of TIGTA; and incidents of resistance or objection to oversight activities of TIGTA. Report restricted or significantly delayed access to information, including the justification of the establishment for such action.	As of September 30, 2018, there were no attempts to interfere with the independence of TIGTA or any instances of restricted or significantly delayed access to information.
Disputed Recommendations Provide information on significant management decisions in response to recommendations with which the Inspector General disagrees.	As of September 30, 2018, there were no instances in which significant recommendations were disputed.
Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	As of September 30, 2018, there were no significant revised management decisions.
Reports Issued in the Prior Reporting Period With No Management Response Provide a summary of each 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.	As of September 30, 2018, there were no prior reports for which management's response was not received within 60 days of issuance.
Disclosure 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.	As of September 30, 2018, there were no reports that had been closed and were not disclosed to the public.
Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.	TIGTA's Office of Chief Counsel reviewed 246 proposed regulations and legislative requests during this reporting period.

44 Results listed are for this reporting period only.

Appendix II

Audit Products

April 1, 2018 – September 30, 2018

Audit Products		
Reference Number	**Report Title**	**Outcome Measure(s)**
April 2018		
2018-40-028	Interim Results of the 2018 Filing Season	
2018-40-032	The Internal Revenue Service Is Not in Compliance With Improper Payment Requirements	
2018-44-027	Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts	
2018-10-020	More Effective Workstation and Office Utilization Could Result in Rental Cost Savings	Funds Put to Better Use: *$80,399,060;* Reliability of Information: *33,023 workspaces in Graphic Database Interface impacted.*
2018-40-031	Proactive Processes to Identify and Mitigate Potential Misuse of Electronic Payment Systems Are Needed	
May 2018		
2018-10-026	The Research, Applied Analytics, and Statistics Organization Project Management Practices Need Improvement	
2018-10-021	Review of Questionable Background Investigations Performed by the Office of Personnel Management's Former Contractor U.S. Investigations Services, Inc.	
2018-20-029	Security Over High Value Assets Should Be Strengthened	
2018-10-033	Review of the Internal Revenue Service's Public Transportation Subsidy Program	
2018-40-035	Programming Errors and Deficiencies in Tax Examiner Screening Resulted in Some Health Coverage Tax Credit Claims Being Erroneously Processed	Revenue Protection: *$1,038,523;* Taxpayer Burden: *320 taxpayer accounts impacted.*
2018-40-038	Further Consolidation of Processing Centers Is Underway in Response to Continued Increases in Electronic Filing	
June 2018		
2018-10-037	Improvements Are Needed to Provide Effective Oversight of Workers' Compensation Claims	Questioned Costs: *$13,246*; Reliability of Information: *1,090 workers' compensation claims impacted.*
2018-20-030	The Cybersecurity Data Warehouse Needs Improved Security Controls	
2018-20-034	Active Directory Oversight Needs Improvement and Criminal Investigation Computer Rooms Lack Minimum Security Controls	
July 2018		
2018-40-049	Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria	
2018-30-040	Despite Spending Nearly $380 Million, the Internal Revenue Service Is Still Not Prepared to Enforce Compliance With the Foreign Account Tax Compliance Act	Reliability of Information: *16,246 1099 forms impacted; 62,398 1042-S forms impacted.*
2018-20-041	Management Controls Should Be Strengthened to Improve Hardware Asset Inventory Reliability	Reliability of Information: *6,649 hardware asset records impacted*; Protection of Resources: *$221,339.*

Audit Products		
Reference Number	**Report Title**	**Outcome Measure(s)**
2018-20-036	The Remediation of Configuration Weaknesses and Vulnerabilities in the Registered User Portal Should Be Improved	
2018-30-053	Fiscal Year 2018 Statutory Review of Disclosure of Collection Activities on Joint Returns	
2018-30-042	The Internal Revenue Service Lacks a Coordinated Strategy to Address Unregulated Return Preparer Misconduct	Increased Revenue: *$121,175,195 impacting 72,375 tax preparer accounts.*
2018-20-045	Information Technology Investment Management Controls Should Be Better Aligned With the Federal Information Technology Acquisition Reform Act of 2014	
2018-20-043	Initial Efforts to Develop an Enterprise Case Management Solution Were Unsuccessful; Other Options Are Now Being Evaluated	
2018-10-057	Review of the Internal Revenue Service's Purchase Card Violations Report	
2018-30-046	Criminal Investigation's Firearms Training and Qualification Oversight Needs to Be Improved	Reliability of Information: *154 inventory records and 183 Criminal Investigation SharePoint records impacted.*
2018-20-039	Private Collection Agency Security Over Taxpayer Data Needs Improvement	
August 2018		
2018-10-044	Status of the Implementation of the Federal Financial Management Improvement Act	
2018-40-061	Additional Actions Can Be Taken to Further Reduce Refund Losses Associated With Business Identity Theft	Funds Put to Better Use: *$351,624,431.*
2018-30-056	Fiscal Year 2018 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations	
2018-30-059	Fiscal Year 2018 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute	
2018-30-055	Fiscal Year 2018 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results	
2018-40-062	Improved Procedures Are Needed to Prevent the Fraudulent Use of Third-Party Authorization Forms to Obtain Taxpayer Information	Taxpayer Privacy and Security: *1,116,093 taxpayer accounts impacted.*
2018-30-060	The Internal Revenue Service Can More Effectively Address Noncompliance by Better Using and Controlling the Fed/State Program	Increased Revenue: *$284,953,534.*
September 2018		
2018-10-054	Review of the Office of Appeals Collection Due Process Program	Increased Revenue: *480[45] taxpayer accounts impacted;* Taxpayer Rights and Entitlements: *5,630 taxpayer accounts impacted.*
2018-30-052	Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited	
2018-30-068	Fiscal Year 2018 Statutory Review of Compliance With Legal Guidelines When Issuing Levies	Taxpayer Rights and Entitlements: *1,196[46] taxpayer accounts impacted.*
2018-30-067	Fiscal Year 2018 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property	Taxpayer Rights and Entitlements: *Seven taxpayer accounts impacted.*
2018-30-069	Trends in Compliance Activities Through Fiscal Year 2017	
2018-30-070	Fiscal Year 2018 Statutory Review of Restrictions on Directly Contacting Taxpayers	

45 Some taxpayer accounts are not included in this total due to redactions in the publicly issued report.
46 Some taxpayer accounts are not included in this total due to redactions in the publicly issued report.

Audit Products		
Reference Number	**Report Title**	**Outcome Measure(s)**
2018-30-073	Improvements Are Needed to Ensure Adequate Consideration of the Pickup of Prior and/or Subsequent Returns During Field Examinations	Increased Revenue: *$246,214,311 impacting 18,860 taxpayer accounts.*
2018-30-080	Fiscal Year 2018 Statutory Review of Compliance With Notice of Federal Tax Lien Filing Due Process Procedures	Taxpayer Burden: *8,156 taxpayer accounts impacted.*
2108-10-058	Fiscal Year 2018 Statutory Review of Denials of Freedom of Information Act and I.R.C. § 6103 Requests	Taxpayer Rights and Entitlements: *60 responses to Freedom of Information Act requests impacted and one response to 6103 information requests;* Taxpayer Privacy and Security: *Two responses to Freedom of Information Act requests impacted.*
2018-30-077	Improvements to the SS-8 Program Are Needed to Help Workers and Improve Employment Tax Compliance	Taxpayer Burden: *6,425 taxpayer accounts impacted.*
2018-20-065	Review of the System Failure That Led to the Tax Day Outage	
2018-20-063	Improved Controls Are Needed to Ensure That Corrective Actions for Reported Information Technology Weaknesses Are Documented and Fully Implemented Prior to Closure	Reliability of Information: *Two Forms 13872 and eight Joint Audit Management Enterprise System planned corrective actions impacted.*
2018-30-072	Improvements Are Needed in the Withholding Compliance Program	Increased Revenue: *$1,185,618,448.*
2018-20-066	Controls Continue to Need Improvement to Ensure That All Planned Corrective Actions for Security Weaknesses Are Fully Implemented and Documented	Reliability of Information: *61 closed planned corrective actions impacted.*
2018-30-074	Forms, Instructions, Publications, and Procedures Need to Be Improved for Some Nonresident Aliens Eligible for Treaty-Based Income Exemptions	Taxpayer Rights and Entitlements: *$163,000,000 income exemptions impacting 8,543 taxpayer accounts;* Taxpayer Burden: *60,397 taxpayer accounts impacted;* Reliability of Information: $5,700,000,000.
2018-20-082	Treasury Inspector General for Tax Administration – Federal Information Security Modernization Act Report for Fiscal Year 2018	
2018-30-076	The Internal Revenue Service Still Does Not Make Effective Use of Currency Transaction Reports	
2018-30-071	The Internal Revenue Service's Bank Secrecy Act Program Has Minimal Impact on Compliance	Increased Revenue: *$33,118,557 impacting 18,159 taxpayer accounts.*
2018-24-064	A Shortened Delivery Cycle, High Volume of Changes, and Missed Deadlines Increase the Risk of a Delayed Start of the 2019 Filing Season	
2018-30-079	The Internal Revenue Service and Private Debt Collectors Took Some Action for 16 Potential Violations of Fair Tax Collection Practices During Fiscal Year 2017	Taxpayer Burden: *Eight IRS employee misconduct cases impacted;* Taxpayer Privacy and Security: *Three IRS employee misconduct cases impacted;* Taxpayer Rights and Entitlements: *Five IRS employee misconduct cases impacted;* Reliability of Information: *Six IRS employee misconduct cases impacted.*
2018-20-083	Annual Assessment of the Internal Revenue Service's Information Technology Program for Fiscal Year 2018	
2018-30-081	Billions in Tip-Related Tax Noncompliance Are Not Fully Addressed and Tip Agreements Are Generally Not Enforced	Increased Revenue: *$88,247,554.*

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 2018, TIGTA completed its 17th round of statutory reviews that are required annually by the RRA 98. It also completed 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, Executive Order 13520 – Reducing Improper Payments and Eliminating Waste in Federal Programs, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The following table reflects the FY 2018 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) Section (§) 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.	**Ref. No. 2018-30-055; Aug. 2018** From a sample, TIGTA identified instances of noncompliance with each of the following subsections of RRA 98: one potential violation (§ 1204(a)) in which an IRS manager used a Record of Tax Enforcement (ROTER) to suggest a production quota or goal; 13 instances (§ 1204(b)) in which 11 IRS managers failed to either maintain the retention standard documentation or ensure that it was appropriately signed and dated and three instances (§ 1204(c)) in which three IRS managers did not properly certify in writing to the IRS Commissioner whether ROTERs and/or production quotas or goals were used in a prohibited manner.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	Requires TIGTA to evaluate the IRS's compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.	**Ref. No. 2018-30-070; Sept. 2018** The IRS has a number of policies and procedures in place to help ensure that taxpayers are afforded the right to designate an authorized representative to act on their behalf in dealing with IRS personnel in a variety of tax matters. However, TIGTA identified inconsistencies between guidance for Appeals employees and management's position that the Office of Appeals did not need to adhere to §§ 7521(b)(2) and (c), which protect taxpayer rights to representation.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 (a) upon the filing of a notice of lien.	**Ref. No. 2018-30-080; Sept. 2018** Tests of a statistically valid sample of 163 Notice of Federal Tax Liens (NFTLs) determined that the IRS timely and correctly mailed the NFTL and appeal rights notices to the taxpayers' last known address. However, tests of a judgmental sample of 120 undelivered lien notices identified 10 cases for which the address on the original lien notice and the address on the IRS computer system did not agree. In five of these cases, the address on the IRS computer system was updated before the cycle date the NFTL was prepared.
Extensions of the Statute of Limitations for Assessment of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501(c)(4)(B)	Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.	**Ref. No. 2018-30-059; Aug. 2018** 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, 10 of the taxpayer audit files lacked documentation to support that employees followed the IRS's internal procedures for further explaining the taxpayers' rights to the taxpayers.
Levies I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.	**Ref. No. 2018-30-068; Sept. 2018** Tests of the population of 87,090 taxpayers with Automated Collection System (ACS) paper levies identified five cases in which ACS employees levied the taxpayer before waiting 30 days after providing the notice of Collection Due Process rights to the taxpayer. The IRS took corrective action in June 2018. Additionally, tests of the population of 59,355 taxpayers with ACS paper levies in which additional tax was assessed prior to the levies identified 783 (1 percent) taxpayers who did not receive a new notice of intent to levy after an additional assessment was made on a tax period listed on the levy. A programming fix was implemented in January 2018.
Collection Due Process I.R.C. §§ 7803(d)(1)(A)(iii) and (iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding taxpayers' rights to appeal lien or levy actions.	**Ref. No. 2018-10-054; Sept. 2018** 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. From two statistically valid samples, TIGTA identified eight taxpayer cases that were misclassified. This is a slight increase from the six misclassified taxpayer cases that were identified in the prior year's review.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Seizures I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.	**Ref. No. 2018-30-067; Sept. 2018** TIGTA reviewed a judgmental sample of 51 of the 359 seizures conducted from July 1, 2016 through June 30, 2017, to determine whether the IRS complied with legal and internal guidelines related to each seizure. TIGTA identified three seizures in which IRS Collection employees did not exhibit due diligence to ensure that the seizure was appropriate.
Taxpayer Designations – Illegal Tax Protester Designation and Similar Designations I.R.C. § 7803(d)(1)(A)(v)	An evaluation of the IRS's compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.	**Ref. No. 2018-30-056; Aug. 2018** 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 65 million taxpayers in the Account Management Services system, TIGTA found that there were nine instances in which nine employees referred to taxpayers as "Tax Protester/Protestor."
Disclosure of Collection Activities With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) (TIGTA requirement) I.R.C. § 6103(e)(8)(IRS requirement)	Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e) (8), which requires the IRS to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	**Ref. No. 2018-30-053; July 2018** IRS employees are not required to record or monitor joint filer requests for information on collection activities, systems have not been designed to specifically capture such information, 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 to the Internal Revenue Manual (IRM) sections and training materials regarding what the law requires and allows when receiving requests for disclosure of collection information pursuant to either I.R.C. § 6103(e)(7) or § 6103(e)(8).
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each of its Semiannual Reports to Congress the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by the IRS or TIGTA from taxpayers, IRS employees, and other sources.	Statistical results on the number of taxpayer complaints received are shown on page 53.
Administrative or Civil Actions With Respect to the Tax Collection Practices Act of 1996 I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 RRA 98 § 3466	Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions and any resulting judgments or awards granted.	**Ref. No. 2018-30-079; Sept. 2018** TIGTA identified two Fair Tax Collection Practices (FTCP) violations closed in FY 2017 that resulted in administrative actions for IRS collection employees. Additionally, TIGTA identified six potential FTCP and eight potential Fair Debt Collection Practice Act violations by private collection agency (PCA) employees. The PCAs reported only two of the 14 potential violations to the IRS. IRS management took no action on the two cases to ensure that the PCAs took all appropriate steps to discipline the employee and reduce the risk that violations will continue.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Denial of Requests for Information I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)	Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).	**Ref. No. 2018-10-058; Sept. 2018** TIGTA determined that information was properly withheld in most cases. In addition, most cases were processed timely. However, TIGTA identified two requests for which information was improperly withheld, four requests for which the IRS did not timely provide a status report to the requestor, and two requests for which the IRS improperly provided information to requestors that should have been withheld.
Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)	Requires TIGTA to evaluate the IRS's adequacy and security of its technology.	Security Reviews: **Ref. No. 2018-20-007; Feb. 2018** **Ref. No. 2018-20-029; May 2018** **Ref. No. 2018-20-030; June 2018** **Ref. No. 2018-20-034; June 2018** **Ref. No. 2018-20-036; June 2018** **Ref. No. 2018-20-039; July 2018** **Ref. No. 2018-20-041; July 2018** **Ref. No. 2018-20-065; Sept. 2018** **Ref. No. 2018-20-066; Sept. 2018** **Ref. No. 2018-20-082; Sept. 2018** **Ref. No. 2018-20-083; Sept. 2018** Information Technology Reviews: **Ref. No. 2018-20-019; Mar. 2018** **Ref. No. 2018-20-043; July 2018** **Ref. No. 2018-20-045; July 2018** **Ref. No. 2018-20-426; Sept. 2018** **Ref. No. 2018-20-063; Sept. 2018**
Federal Financial Management Improvement Act of 1996 (FFMIA) 31 U.S.C. § 3512	Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements or the establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.	**Ref. No. 2018-10-044; Aug. 2018** During FY 2017, the IRS made progress on addressing certain aspects of its internal control weaknesses that affect its financial reporting. Additionally, TIGTA found that the IRS continues to include limited cost information in its quarterly remediation plans.
Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions National Drug Enforcement Policy, 21 U.S.C. § 1704(d), and the ONDCP Circular entitled Drug Control Accounting, dated May 1, 2007.	Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.	**Ref. No. 2018-10-017; Jan. 2018** The FY 2017 performance goals that were first reported in the FY 2016 submission were not updated. Otherwise, based on TIGTA's review, nothing came to TIGTA's attention that caused TIGTA to believe that the assertions in the IRS's Detailed Accounting Submission and Performance Summary Report are not fairly presented in all material respects in accordance with ONDCP's established criteria.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Government Charge Card Abuse Prevention Act of 2012 Pub. L. No. 112-194 (October 2012)	Requires TIGTA to report on the IRS's progress in implementing purchase and travel card audit recommendations.	**Ref. No. 2018-10-018; Jan. 2018** The IRS identified and reported six instances of confirmed purchase card misuse and 21 instances of purchase card misuse pending final agency action. The six confirmed purchase card misuse cases reported by the IRS collectively totaled $134. TIGTA also reviewed the IRS's current charge card guidance and determined that policies and procedures have been established and designed to mitigate the risk of fraud and inappropriate Government travel and purchase card practices. **Ref. No. 2018-10-057; July 2018** For the period of October 1, 2017, through March 31, 2018, the IRS identified six instances of confirmed purchase card misuse totaling $317, including items purchased for personal use such as sanitizing wipes, a memory foam seat cushion, and over-the-counter medication. TIGTA also identified an additional two instances of purchase card misuse totaling $216.
Improper Payments Elimination and Recovery Act of 2010 (IPERA) 31 U.S.C. § 3321	Requires TIGTA to assess the IRS's compliance with improper payment requirements.	**Ref. No. 2018-40-032; April 2018** The IRS provided all required Earned Income Tax Credit improper payment information for inclusion in the Department of the Treasury Agency Financial Report Fiscal Year 2017. The IRS continues to incorrectly rate the improper payment risk associated with the Additional Child Tax Credit and American Opportunity Tax Credit, which results in a significant understatement of improper payments associated with refundable tax credits reported to the Office of Management and Budget and to Congress.
Digital Accountability and Transparency Act of 2014 (DATA Act) Pub. L. No. 113-101, 128 Stat. 1124 (2014)	Requires TIGTA to assess the completeness, timeliness, quality and accuracy of data that the IRS submits to comply with the DATA Act.	**Ref. No. 2018-10-006; Nov. 2017** TIGTA determined that the IRS certified and submitted DATA Act spending data by May 2017, as required, for publication on USAspending.gov. However, TIGTA's review of 206 (of the 366 total for Treasury) procurement and grant transactions found that significant improvements are needed to ensure the completeness, accuracy, and overall quality of the procurement and grant information submitted.
Protecting Americans From Tax Hikes Act of 2015 **(PATH Act)** Pub. L. No. 114-113, 129 Stat. 2242 (2015)	Requires TIGTA to conduct an audit of the issuance of Individual Taxpayer Identification Numbers (ITIN).	**Ref. No. 2018-40-010; Jan. 2018** The IRS did not provide the required ITIN study by December 18, 2016. Also, processes have not been established to ensure that ITINs issued for tax treaty purposes are used solely for those purposes. Further, IRS management has not made a programming change needed to identify potentially fraudulent applications.

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, 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 I.R.C. § 6103 for the purpose of concealing information from a congressional inquiry;
- Willfully failing to file any return of tax required under the I.R.C. 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

Inspector General Peer Review Activity

April 1, 2018 – September 30, 2018

This appendix implements Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act.[47]

Peer Reviews Conducted of TIGTA by Another Office of Inspector General

During the reporting period, the General Services Administration (GSA) Office of Inspector General conducted a peer review of TIGTA's Office of Audit. In its September 12, 2018, report, the GSA Office of Inspector General concluded that TIGTA's Office of Audit complies with applicable peer review guidelines and professional standards.

Outstanding Recommendations from Peer Reviews of TIGTA

There are no outstanding recommendations from peer reviews of TIGTA.

Peer Reviews Conducted by TIGTA

TIGTA's Office of Inspections and Evaluations conducted a peer review of the Evaluation and Inspections Division of the U.S. Department of Justice Office of Inspector General. The final report was issued on August 8, 2018.

TIGTA's Office of Audit conducted a peer review of the Office of Audit of the U.S. Department of Agriculture Office of Inspector General. The final report was issued on August 17, 2018.

Outstanding Recommendations from Peer Reviews Conducted by TIGTA

There are no outstanding recommendations from peer reviews conducted by TIGTA.

47 Pub.L. 111-203, 124 Stat. 1376.

Appendix VI

Data Tables Provided by the Internal Revenue Service

The memorandum copied below is the IRS's transmittal to TIGTA. The tables that follow the memorandum contain information that the IRS provided to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period April 1, 2018 through September 30, 2018. 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.

Internal Revenue Service Memorandum

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

HUMAN CAPITAL OFFICE

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Julia Caldwell Julia Caldwell
Director, Workforce Relations Division

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

In response to your memorandum dated July 25, 2018, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. section 7803(d)(1)(E) and 26 U.S.C. section 7803(d)(2)(A)(ii) for April 1, 2018, through September 30, 2018.

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

The attached tables contain information about:

- Alleged misconduct reported to IRS managers
- Disposition of the allegations resolved during the period
- Status of the inventory as of September 30, 2018

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.

The Summary of Substantiated Section 1203 Allegations contains information on the disposition of substantiated Section 1203 allegations. During this period, IRS managers substantiated 248 Section 1203 allegations and removed 20 employees as a result, 14 employees retired or resigned before a final administrative action by management. In one of the removals, IRS management considered information in a TIGTA investigation. The Commissioner mitigated proposed removals in 13 cases. The remaining 200 substantiated allegations are still in the adjudication process.

2

If you have any questions, please contact Shelia Barbee, Associate Director, LR/ER Field Operations at (202) 317-3307.

Attachments (3)

cc: Charles P. Rettig, Commissioner of Internal Revenue
Kirsten Wielobob, Deputy Commissioner for Services and Enforcement
Jeffrey Tribiano, Deputy Commissioner for Operations Support
Terry Lemons, Chief, Communications & Liaison
Mark Kaizen, Associate Chief Counsel (GLS)
Robin D. Bailey, Jr., Chief Human Capital Officer

The Following Tables Are Provided by the IRS:

Report of Employee Misconduct by Disposition Groups

Period Covering April 1, 2018 – September 30, 2018

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Totals
REMOVAL (PROBATION PERIOD COMPLETE)	30	46	19	0	**95**
REMOVAL AT OPM DIRECTION	0	0	0	0	**0**
PROBATION/SEPARATION	0	125	0	0	**125**
SEPARATION OF TEMPORARY EMPLOYEE	0	57	0	3	**60**
RESIGNATION, RETIREMENT, ETC. (REASON NOTED ON SF50)[18]	9	16	12	0	**37**
RESIGNATION, RETIREMENT, ETC. (REASON NOT NOTED ON SF50)[19]	16	79	34	0	**129**
SUSPENSION, 14 DAYS OR LESS	54	115	102	0	**271**
SUSPENSION, MORE THAN 14 DAYS	25	28	24	0	**77**
INDEFINITE SUSPENSION	0	3	0	0	**3**
REPRIMAND	43	125	137	6	**311**
ADMONISHMENT	36	101	322	0	**459**
WRITTEN COUNSELING	63	122	220	3	**408**
ORAL COUNSELING	0	17	12	0	**29**
AD: IN LIEU OF REPRIMAND	0	15	11	0	**26**
AD: IN LIEU OF SUSPENSION	11	13	16	0	**40**
CLEARANCE LETTER	36	64	3	0	**103**
CLOSED WITHOUT ACTION CAUTIONARY LETTER	107	145	134	89	**475**
CLOSED WITHOUT ACTION LETTER	52	77	21	0	**150**
TERMINATION FOR ABANDONMENT OF POSITION	0	37	0	0	**37**
CASE SUSPENDED PENDING EMPLOYEE RETURN TO DUTY	0	0	3	0	**3**
PROSECUTION PENDING FOR TIGTA'S ROI	0	0	0	0	**0**
CLOSED - SUPPLEMENTAL REQUESTED	0	0	0	0	**0**
FORWARDED TO TIGTA	0	3	0	0	**3**
TOTAL	**482**	**1188**	**1070**	**101**	**2841**

Source: The 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 U.S.C. § 7803(d)(2).

Note: "AD" is an abbreviation for Alternative Discipline.

Extract Date: September 30, 2018

Report of Employee Misconduct National Summary

Period Covering April 1, 2018 – September 30, 2018

Inventory Case Type	Open Inventory	Conduct Cases Received	Cases Closed			Ending Inventory
			Conduct Issues	Cases Merged with Other Cases	Non-Conduct Issues	
ADMINISTRATIVE CASE	532	1605	1435	39	60	603
EMPLOYEE CHARACTER INVESTIGATION	45	152	123	1	0	73
EMPLOYEE TAX COMPLIANCE CASE	1185	1465	1152	40	0	1458
TIGTA REPORT OF INVESTIGATION	575	567	566	5	0	571
Total	2237	3789	3276	85	60	2705

Source: ALERTS

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

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

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

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

Extract Date: September 30, 2018

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

Period Covering April 1, 2018 – September 30, 2018

§ 1203 Violation	*Removals	*Resigned/ Retired	Probation Separation	Removed On Other Grounds	*Penalty Mitigated	In Personnel Process	Total
1203(b)(2): FALSE STATMENT UNDER OATH	0	0	0	0	0	0	0
1203(b)(3): CIVIL RIGHTS/ CONSTRUCTIVE VIOLATION	0	0	0	0	0	0	0
1203(b)(4): CONCEALED WORK ERROR	2	0	0	0	0	2	4
1203(b)(6): IRC/IRM/REG VIOLATION-RETALIATION	1	0	0	0	0	0	1
1203(b)(8): WILLFUL UNTIMELY RETURN	9	9	0	0	5	94	117
1203(b)(9): WILLFUL UNDERSTATED TAX	8	5	0	0	8	104	126
Total	20	14	0	0	13	200	

Source: 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.

Extract Date: September 30, 2018

Glossary of Acronyms

BSA	Bank Secrecy Act
CAF	Centralized Authorization File
CI	Criminal Investigations
CY	Calendar Year
DOJ	Department of Justice
DPL	Direct Plus Loan
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
FAFSA	Free Application for Federal Student Aid
FATCA	Foreign Account Tax Compliance Act
FCC	Federal Communications Commission
FERDI	Federal Employee/Retiree Delinquency Initiative
FFELP	Federal Family Education Loan Program
FFI	Foreign Financial Institution
FinCEN	Financial Crimes Enforcement Network
FSA ID	Federal Student Aid Identification Number
FTC	Federal Trade Commission
FY	Fiscal Year
GPR	General Purpose Reloadable
HCTC	Health Coverage Tax Credit
I&E	Office of Inspections and Evaluations
IGEA	Inspector General Empowerment Act

I.R.C.	Internal Revenue Code
IBM	International Business Machines
IGA	Intergovernmental Agreement
IRS	Internal Revenue Service
KISAM-AM	Knowledge Incident/Problem Service Asset Management Asset Management
OEM	Office of Employee Protection
OI	Office of Investigations
OPM	Office of Personnel Management
PCA	Private Collection Agency
PDC	Private Debt Collection
PII	Personally Identifiable Information
PY	Processing Year
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
SB/SE	Small Business/Self-Employed
SBU	Sensitive But Unclassified
SSN	Social Security Number
TCJA	Tax Cuts and Jobs Act of 2017
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
TY	Tax Year
UPS	United Parcel Service
USCIS	U.S. Citizen and Immigration Services
USIA	U.S. Investigations Services

ACRONYMS USED EXCLUSIVELY IN APPENDICES

ALERTS	Automated Labor and Employee Relations Tracking System
ANMF	Automated Non-Master File
ASFR	Automated Substitute for Return
CTC	Child Tax Credit
DCAA	Defense Contract Audit Agency
FFMIA	Federal Financial Management Improvement Act
FUTA	Federal Unemployment Tax
IMF	Individual Master File
IPERA	Improper Payments Elimination and Recovery Act
LLC	Limited Liability Company
NAP	National Account Profile
ONDCP	Office of National Drug Control Policy
RTS	Real-Time System
SAM	Software Asset Management
SCRIPS	Service Center Recognition Image Processing System
VITA	Volunteer Income Tax Assistance

Call our toll-free hotline to report waste, fraud, or abuse:

1-800-366-4484

By Web:

www.tigta.gov

Or Write:

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

Information you provide is confidential and you may remain anonymous

Department of the Treasury

Office of the Inspector General for Tax Administration
1401 H Street, NW., Suite 469
Washington, DC 20005

This report and complete copies of TIGTA audit reports are available online at: www.tigta.gov