

Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2019 – SEPTEMBER 30, 2019



Internal
Revenue
Service
Building

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

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

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

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



Inspector General's Message to Congress

It is my honor to present this Semiannual Report to Congress, summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) during the period April 1, 2019 through September 30, 2019. This report highlights a number of the notable audits, investigations, and inspections and evaluations performed by TIGTA in this reporting period, as we continue to carry out our mission of providing oversight of the Internal Revenue Service (IRS) and protecting the integrity of Federal tax administration.

During this reporting period, TIGTA's Office of Audit has completed 60 audits, and our Office of Investigations has completed 1,169 investigations. In addition, TIGTA's combined audit and investigative efforts have resulted in the recovery, protection, and identification of monetary benefits totaling more than \$26.6 billion.



The Tax Cut and Jobs Act of 2017 was the first major tax reform legislation in more than 30 years. The Act contained 119 tax provisions administered by the IRS that affect domestic and international taxes. The majority of these provisions became effective in Tax Year (TY) 2018 for returns filed and processed during the 2019 Filing Season. The 2019 Filing Season was also impacted by the partial shutdown of the Federal Government for approximately one month as the IRS created new tax products, revised existing tax products, and performed extensive computer programming changes and updates. Along with these challenges, the IRS also redesigned the Form 1040, *U.S. Individual Tax Return*. The redesign required the IRS to update tax forms, instructions, and publications. The Form 1040 will present future challenges for the IRS as it is expanded. Three of the six Form 1040 schedules that were new for TY 2018 are obsolete for the 2020 Filing Season. These changes will increase the scope of work the IRS must perform for the 2020 Filing Season.

In addition, the Taxpayer First Act of 2019 was enacted which includes provisions to expand and strengthen taxpayer rights with a focus on cybersecurity and taxpayer protection from identity theft. TIGTA is currently developing a strategy to assess the IRS' implementation of provisions contained in this legislation.

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

Sincerely,

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

J. Russell George
Inspector General

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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.

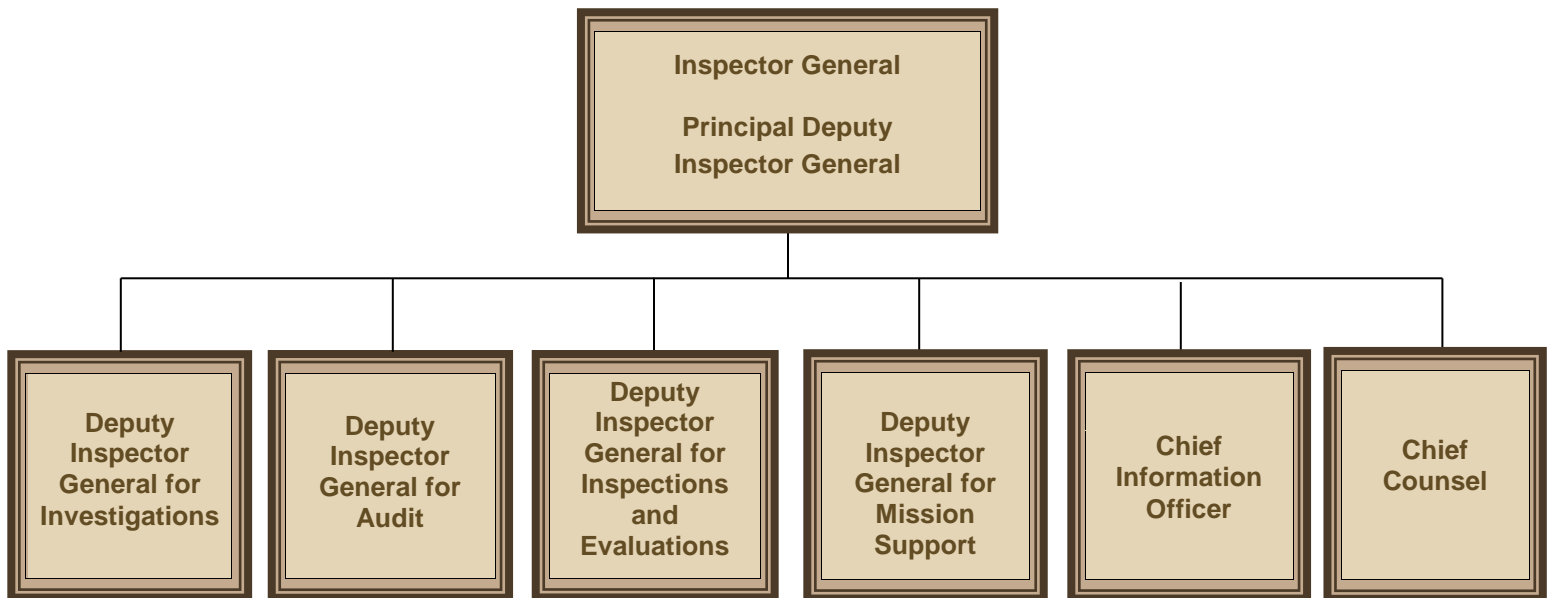
TIGTA oversees all aspects of activity related to the Federal tax system as administered by the IRS. TIGTA protects the public's confidence in the tax system by identifying and recommending strategies for addressing the IRS's management challenges and implementing the priorities of the Treasury Department.

TIGTA's organizational structure (see following page) 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 the progress made in resolving them.

Organizational Structure



Authorities

TIGTA has all of the authorities granted under the Inspector General Act of 1978, as amended (Inspector General Act).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.) Section (§) 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)).

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.

Audit Emphasis Areas for April 2019 Through September 2019

- Security Over Taxpayer Data and Protection of IRS Resources
- Implementing the Tax Cuts and Jobs Act and Other Tax Law Changes
- Improving Tax Reporting and Payment Compliance
- Reducing Fraudulent Claims and Improper Payments
- Impact of Global Economy on Tax Administration
- Achieving Program Efficiencies and Cost Savings

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

Security Over Taxpayer Data and Protection of IRS Resources

Processes and Procedures for Rehiring Employees With Prior Conduct or Performance Issues Were Implemented but Not Always Followed

From October 2017 through June 2018, the IRS hired approximately 6,400 employees, of which 1,510 had been previously employed by the IRS. Rehiring employees who have known conduct or performance issues presents increased risk that the employees will repeat the same or other unwanted behavior. Hiring employees of high integrity is essential to maintaining public trust in tax administration and safeguarding taxpayer information.

TIGTA previously reported that the IRS did not effectively update or implement hiring policies to fully consider past IRS conduct and performance issues prior to making a tentative decision to hire former employees, including those who were terminated or separated during an investigation of a substantiated conduct or performance issue.³ The overall objective of this review was to determine whether the IRS had updated and implemented hiring policies to fully consider past conduct and performance issues prior to hiring former employees.

This review found that the IRS improved the process for rehiring former employees with prior substantiated conduct or performance issues. From October 2017 to June 2018, the IRS rehired 1,510 employees, and 33 (2 percent) had prior substantiated conduct or performance issues. TIGTA previously reported that approximately 10 percent of former employees hired between January 2015 and March 2016 had a prior substantiated conduct or performance issue.

Although the IRS updated its processes and procedures, TIGTA determined that the IRS was not always following them. For the 33 rehired employees, IRS management documented that they were aware of the prior issues before the employees were rehired. However, the IRS did not clearly document the basis for rehiring 29 of these employees. In addition, IRS officials incorrectly applied guidelines developed to standardize consideration of prior performance and misconduct in hiring decisions. Four of these former IRS employees were rehired because guidelines were not followed. Despite the issuance of additional guidance in June 2018, officials did not document the reason to rehire employees or obtain proper approval to rehire for 12 of the 13 employees rehired between June 2018 and April 2019. When the IRS rehires former employees with prior conduct or performance issues, that decision could have an adverse impact on the integrity of the IRS.

TIGTA recommended that the IRS:

- Update the Internal Revenue Manual to require Employment Operations staff to review all past conduct and performance issues;
- Update the tool used to identify former IRS employees with known conduct or

³ TIGTA, Ref. No. 2017-10-035, *The Internal Revenue Service Continues to Rehire Former Employees With Conduct and Performance Issues* (July 2017).

performance issues so that it contains all past conduct and performance information;

- Conduct periodic quality reviews of hiring decisions; and
- Train responsible officials on the updated procedures, including the application of the conduct and performance matrices.

IRS management agreed with all of TIGTA's recommendations.

Reference No. 2019-10-081

The First Phase of the Data Loss Protection Solution Is Working as Intended, but the Remaining Phases Continue to Experience Delays

The IRS is entrusted with protecting information received from taxpayers, including Personally Identifiable Information (PII) and tax account data. Allowing this information to be removed or exfiltrated for unauthorized purposes could erode public trust in the IRS's ability to administer our Nation's tax system and in voluntary tax compliance.

This audit was initiated to determine whether the IRS properly implemented controls to prevent data loss, including data exfiltration of personal information. The IRS is implementing a Data Loss Prevention software solution to identify and prevent PII from leaving the IRS network, whether intentionally or unintentionally. The software has multiple components that are being implemented over several years, and this audit evaluated the progress of the implementation.

The Safeguarding PII Data Extracts Project, which is responsible for implementing the Data Loss Prevention solution, started in Calendar Year (CY) 2010 and is ongoing. The project team implemented and expanded the Data-in-Motion component of the solution that includes reviewing unencrypted e-mail and attachments, file transfers, and web traffic for the most common types of PII used by the IRS. TIGTA's testing indicated that the Data-in-Motion component generally identified and blocked common PII types from exfiltration by e-mail as designed, and that potential incidents identified by the solution were reviewed and resolved correctly. However, continued delays with implementing other components are preventing realization of the full benefits of the Data Loss Prevention solution.

The causes of the delays include technical, project management, and administrative issues. Because of the delays, two key components involving data in repositories and data in use are still not operational more than eight years after the project started. Without these components, PII continues to be at risk of loss. The delays have also resulted in the inefficient use of resources of approximately \$1.2 million in software costs for the components that are not operational.

TIGTA recommended that the IRS:

- Deploy the components of the Data Loss Prevention solution;
- Ensure that project documents are prepared and maintained as required; and

- Ensure that any issues requiring negotiations with the National Treasury Employees Union are identified and negotiations started promptly.

IRS management agreed with all of TIGTA's recommendations.

Reference No. 2019-20-049

Firewall Administration Needs Improvement

Firewalls are devices or programs that monitor incoming and outgoing network traffic. An organization's firewall environment acts as a barrier between a trusted network and an untrusted network. Without proper firewall security controls, there is an increased risk of unauthorized access to IRS networks that could result in the loss of sensitive taxpayer data.

This audit was initiated to determine whether the firewall environment is being administered effectively to protect internal networks from external threats.

TIGTA's review found that the IRS is meeting minimum firewall administration requirements, but improvements are required in the following areas: firewall change requests, annual reviews of firewall rulesets, review of firewall system administrator accounts, and password expiration configuration settings.

TIGTA made ten recommendations, which included that the IRS ensure that:

- Annual reviews of all firewall rulesets are completed;
- Agency policies and procedures are updated to ensure that all firewall change requests and firewall rulesets are assigned appropriate expiration dates;
- Enhance current request and approval policy for all firewall administrator accounts to ensure that these accounts are compliant with authorization requirements;
- Comprehensive and accurate inventories of information system components are maintained;
- Appropriate personnel obtain write access within the official enterprise inventory system; and
- Data field accuracy in the firewall inventories are improved.

The IRS agreed with nine of the recommendations and partially agreed with one recommendation. IRS management partially agreed with the recommendation for improving and updating asset inventory records and proposed an alternative remediation to accomplish the intent of the recommendation.

Reference No. 2019-20-061

Implementing the Tax Cuts and Jobs Act and Other Tax Law Changes

Implementation of the Tax Cuts and Jobs Act Deemed Repatriation Tax Presented Significant Challenges

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was enacted into

law.⁴ The TCJA was the most significant revision of the U.S. tax code in more than 30 years, and the IRS has declared that implementing the TCJA is its highest priority.

Among its many provisions, the TCJA provides for a tax (subject to special tax rates) on U.S. shareholders of specified foreign corporations (and U.S. persons that own interests through domestic pass-through entities that are U.S. shareholders of specified foreign corporations) through a one-time deemed repatriation of foreign accumulated earnings set forth under I.R.C. § 965. The provision was immediately effective upon enactment and included several retroactive components for Tax Year (TY) 2017. The Joint Committee on Taxation estimate for Fiscal Years (FY) 2018 through 2027 was that this provision would generate revenue for the U.S. Government of \$338.8 billion.

This audit was initiated to provide a status of the IRS's progress in implementing the deemed repatriation tax on the post-1986 accumulated earnings and profits of foreign corporations. The retroactive components of I.R.C. § 965 presented significant implementation challenges for the IRS. The IRS made reasonable efforts to provide information to external stakeholders to explain I.R.C. § 965 requirements and the process for filing a TY 2017 tax return that reported a I.R.C. § 965 inclusion amount.

However, in issuing guidance, the IRS initially did not specifically address those circumstances in which taxpayers made payments in excess of the I.R.C. § 965 portion of their TY 2017 income liability immediately due, and it did not clearly inform taxpayers of the implications of making these excess remittances. This resulted in at least 115 taxpayers making \$2.8 billion in payments on their I.R.C. § 965 liabilities that they did not intend to make. The IRS explained that the Internal Revenue Code prevents it from refunding any excess remittances until the entire I.R.C. § 965 liability is paid, even if the taxpayer elected to pay the liability in installments.

Because of the retroactive aspect of this provision, some taxpayers were required to report I.R.C. § 965 tax on their TY 2017 returns. The IRS had less time to develop a process to identify tax returns reflecting the repatriation tax as well as procedures to process the returns manually. As a result, some taxpayers experienced delays in the processing of their filed returns, and the process established contained risks, such as the proper identification of returns that report the tax as well as the proper tracking of I.R.C. § 965 tax payments. For example, as of November 8, 2018, about \$11.2 billion in taxes have been tracked as paid pursuant to I.R.C. § 965, which is far below estimates of repatriation tax liability.

TIGTA recommended that:

- If the IRS is unable to refund excess remittances to taxpayers because the entire income tax liability was not overpaid, it should take steps to inform taxpayers that their excess remittances were applied to the deferred I.R.C. § 965 portion of their income tax liability and inform them of the status of the liability, including when the next installment payment is due; and

⁴ Pub. L. No. 115-97, 131 Stat. 2054. 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."

- The IRS take steps to ensure that I.R.C. § 965 payments were properly recorded and that the IRS establish a comprehensive compliance plan.

The IRS agreed with all of TIGTA's recommendations.

Reference No. 2019-34-033

Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts for the Excise Tax on Excess Compensation Paid by Tax-Exempt Organizations

The TCJA imposes a new 21 percent excise tax on applicable tax-exempt organizations that pay more than \$1 million in remuneration to any covered employee for any taxable years after December 31, 2017. Implementation of the new excise tax provision requires changes to tax forms, instructions, and information technology systems as well as additional guidance to assist taxpayers to accurately report the excise tax.

As a result, this audit was initiated to provide a status of the IRS's progress in the implementation of tax law changes that the TCJA requires. This audit assessed the actions taken by the IRS's Tax Exempt and Government Entities (TE/GE) Division and the Office of Chief Counsel to effectively implement the excise tax provision.

The TE/GE Division coordinated with other IRS offices and developed an action plan that identified the steps needed for the implementation of the excise tax provision. The TE/GE Division also identified the affected tax forms, instructions, and information technology systems and made accurate, complete, and timely requests for revisions. The revised tax forms were available to affected taxpayers by the end of CY 2018.

In addition, the TE/GE Division coordinated with the Office of Chief Counsel to identify formal guidance needed for the excise tax provision. Although there were delays, the Office of Chief Counsel released formal guidance to the public on December 31, 2018. Exempt Organizations employees received training on the new excise tax, and IRS officials participated in various public speaking events that included presentations about the excise tax.

However, TE/GE Division management has not completed a strategy to address noncompliance with the new tax. Although TE/GE Division management acknowledged the need for a compliance strategy and took preliminary steps in that process, as of December 31, 2018, they had not established a timeline for further development and implementation of compliance activities. Affected organizations began reporting the excise tax on returns filed as early as May 2019. A fully developed compliance strategy is needed to monitor and track potential noncompliance with the new excise tax.

TIGTA recommended that the IRS complete a compliance strategy to identify and bring into compliance organizations that fail to pay the excise tax. IRS management agreed with the recommendation.

Reference No. 2019-14-032

Improving Tax Reporting and Payment Compliance

Improvements in Return Scoring and Resource Allocation at the Strategic Level Could Enhance Examination Productivity

The IRS's primary objective in selecting returns for examination is to promote the highest degree of voluntary compliance. This requires the exercise of professional judgement in the selection of returns to assure all taxpayers of equitable consideration and make the most efficient use of staffing resources. The IRS uses a variety of sources to select returns for audit and strives to select those returns for which its examiners are likely to find areas of noncompliance.

This audit was initiated to evaluate the IRS's Small Business/Self-Employed (SB/SE) Division's strategic priority selection methods used to identify individual income tax returns for examination by revenue agents and to assess the effectiveness of the strategic priorities with an emphasis on the Discriminant Index Function (DIF)⁵ selection method.

Between FYs 2014 and 2016, the SB/SE Division's Examination function used 10 strategies to group similar examination work. During each of these fiscal years, the Examination function established planned examined returns closed (hereafter referred to as closures) at the strategic priority level. However, the Examination function does not establish performance goals at the strategic level; rather, it uses cumulative direct examination staff years and cumulative closures combined for revenue agents and tax compliance officers to determine whether the examination plan was met.

TIGTA found that the Examination function did not take corrective action when actual closures exceeded or fell behind planned closures for a specific strategic priority. As a result, the IRS lost the opportunity to assess an additional \$262.5 million on individual income tax return examinations by revenue agents for FY 2016.

TIGTA also reviewed the DIF scores for individual returns filed with the IRS during CY 2015, and those examined and closed by revenue agents and tax compliance officers through December 2017. Even though the DIF identifies returns with examination potential, TIGTA found that, more often than not, individual returns with the highest DIF score did not necessarily result in a higher net tax assessment for most examination classes.

TIGTA recommended that the IRS:

- Establish actionable performance goals, and monitor and take corrective action specific to staffing resources and closures for each strategic priority to ensure that it provides balanced examination coverage; and

⁵ The DIF is a mathematical technique used to score income tax returns as to examination potential. Examination potential is indicated by a numeric score which is assigned to each return by examination class, the greater the score, the greater the examination potential within each examination.

- Determine why the highest DIF scores for individual returns examined by revenue agents and tax compliance officers did not result in higher net tax assessments than lower DIF scores for most examination classes.

IRS management disagreed with the recommendations. The IRS response stated that the Examination function does not control how its examination plan is worked. It also stated that the National Research Program data supports its DIF models. Management did not believe that the specific examination results in the report provided any actionable information relevant to the current DIF models. TIGTA believes that the IRS does control how the plan is worked and should make adjustments as needed to meet the plan. Moreover, the examination results should be used to improve the DIF.

Reference No. 2019-30-024

Billions of Dollars in Non-Payroll Tax Withholding Discrepancies Are Not Being Addressed

A business entity (payer), such as a bank or financial institution, is often required to withhold backup withholding or Federal income tax when making payments involving non-payroll compensation to recipients. During TY 2016, payers reported total backup and Federal income tax withholdings of more than \$126 billion.

The payer of these reportable transactions is required to provide income and withholding documents to the IRS and recipients. Payers report total backup and Federal income tax withheld during the tax year on Form 945, *Annual Return of Withheld Federal Income Tax*. This audit was initiated to determine whether the IRS has controls in place to ensure that tax withholding reported on information returns is accurately reflected on Form 945 and paid to the IRS.

TIGTA's analysis identified instances in which payers did not report backup and Federal income tax withholding amounts on Form 945 or reported a lesser amount on Form 945 than reported on the Forms 1099 or W-2G, *Certain Gambling Winnings*, issued to recipients. For example, TIGTA identified 7,265 payers that provided TY 2016 Forms 1099 or W-2G to the IRS reporting almost \$923 million in withholding, but did not file the required TY 2016 Form 945.

TIGTA also identified 3,163 payers that reported on Form 945 approximately \$760 million less in withholdings than what they reported on associated Forms 1099 and W-2G. In addition, TIGTA identified 773 payers that submitted TY 2016 Forms 1099 or W-2G transmittals, *i.e.*, Forms 1096, *Annual Summary and Transmittal of U.S. Information Returns*, reporting withholding amounts totaling more than \$243 million. These payers did not provide the IRS Forms 1099 or W-2G with Form 1096, did not file a TY 2016 Form 945, and did not have any payments or offsets posted to their tax accounts.

Finally, TIGTA identified 3,527 payers that filed a Form 945 reporting withheld backup and Federal income tax totaling more than \$241 million, but they did not file any Forms 1099 or W-2G with the IRS.

TIGTA made a recommendation, IRS management agreed with it, and plans to take appropriate corrective action.

Reference No. 2019-40-028

Strengthened Validation Controls Are Needed to Protect Against Unauthorized Filing and Input of Fraudulent Information Returns

Administration of the U.S. tax system has become increasingly reliant on the use of information returns provided by third-parties. As such, it is important that the IRS has strong authentication controls to ensure that it has a high confidence in the validity of each payer's identity prior to their submission of information returns that are then used for compliance matching and fraud detection purposes.

This audit was initiated to evaluate the IRS's verification process for authenticating transmitters of information returns to ensure the reliability of data transmitted.

TIGTA found that processes and procedures to authenticate users of the Filing Information Returns Electronically (FIRE) system do not comply with Federal Government information security standards. For example, TIGTA identified that the IRS currently does not perform any type of identity proofing prior to providing users with access to the FIRE system.

In addition, the systemic filters used to identify questionable information return submissions before they are processed and accepted need to be expanded. TIGTA found some information documents were filed by payers designated by the IRS as suspicious payers. For example, 524 information returns were filed in TY 2016 by employers listed on the IRS's *Suspicious EIN Listing*. IRS management reviewed the 524 information returns that TIGTA identified and confirmed that 113 of the information returns were submitted by a bogus payer. These suspicious submissions reported income of more than \$1.4 million and withholding of \$12,600.

TIGTA made seven recommendations, including that the IRS:

- Ensure that the required Digital Identity Risk Assessment is completed for the FIRE system and that an implementation plan for identity proofing FIRE's users is developed;
- Evaluate potential business rules and filters that could be implemented to identify questionable information return submissions; and
- Develop processes to ensure that entities which received an account lock are not allowed access to the FIRE system and that paper returns are not posted to the Information Returns Master File.

The IRS agreed with five, partially agreed with one and disagreed with one of the seven recommendations.

Reference No. 2019-40-071

Reducing Fraudulent Claims and Improper Payments

Actions Have Not Been Taken to Improve Amended Tax Returns Review Procedures to Reduce Erroneous and Fraudulent Payments

When taxpayers make an error on their originally filed Form 1040, *U.S. Individual Tax Return*, they can file an amended tax return. Taxpayers can also file an amended tax return to change amounts previously adjusted by the IRS, make a claim for a carryback due to a loss or unused credit, and make certain elections after the prescribed deadline. Taxpayers generally must file an amended tax return within three years from the time the original tax return was filed or two years from the time the tax was paid, whichever is later.

This audit was initiated to follow up on TIGTA's previous audit recommendations and to evaluate the IRS's efforts to detect and prevent erroneous or fraudulent claims on amended tax returns.

TIGTA's analysis found that employee processing errors continue to result in erroneous refunds. Based on the results of a statistically valid sample of 235 of the more than 1.1 million amended tax returns processed during Processing Year (PY) 2017, TIGTA identified 33 (14 percent) questionable amended returns with refunds totaling \$74,974. Based on the result of this sample, it was estimated that the IRS issued nearly \$359.9 million in potentially erroneous tax refunds claimed on 158,397 amended tax returns during PY 2017. TIGTA forecasts that the IRS could issue nearly \$1.8 billion over the next five years.

TIGTA also found that procedures do not include adequate verification steps to identify questionable refundable credit claims, and that the IRS has taken limited action to adequately update its internal guidelines with respect to amended tax returns.

TIGTA made seven recommendations in this report. The IRS agreed with five, partially agreed with one and disagreed with one of the recommendations

Reference No. 2019-40-042

Impact of Global Economy on Tax Administration

Initial Compliance Results Warrant a More Data-Driven Approach to Campaign Issue Selection

The Large Business and International (LB&I) Division traditionally organized itself around business industries, a structure which came about in response to the RRA 98. Since at least 2010, the LB&I Division's leadership expressed the intent to shift its focus towards examining issues that will have the broadest impact on tax compliance. In 2017, the LB&I Division announced a new approach to address specific compliance issues referred to as "campaigns."

Historically, the LB&I Division has used a variety of methods to identify tax returns for audit consideration, and upon selection, the taxpayer's tax return would be subject to

audit. However, the new campaign approach involves selecting returns by issue and focusing on that issue in the examination process. TIGTA performed this review to assess the LB&I Division's methodology for the identification and selection of campaigns.

In January 2017, the LB&I Division announced the first 13 issue-based compliance campaigns. As of April 2019, a total of 53 campaigns had been announced. The campaign program was a change to the LB&I Division's overall workload selection process and is a new strategy in how it plans to identify, select, and examine strategic compliance issues.

The LB&I Division initially set expectations that campaigns would significantly overtake traditional inventory selection methods. As of September 2018, only 6 percent of inventory had been generated by campaigns, with this percentage climbing to 15 percent by February 2019.

TIGTA found that initial campaigns were not focused on the most significant compliance issues facing the IRS. Some issues were selected from employee suggestions. Other issues were chosen because there was a compliance plan developed with training already in place or an existing base of institutional knowledge available. In addition, issues for campaigns were not selected or prioritized based on past compliance results or potential impact on compliance. While it is early to assess the overall results of campaigns, the limited results available suggest that the LB&I Division's limited resources would be better utilized working issues selected based on compliance risk.

TIGTA recommended that:

- The IRS consider a formal process for using past compliance results and potential impact on compliance to strengthen and supplement the process of selecting and prioritizing issues for campaigns; and
- As recommendations for improvement from the LB&I Division's Campaign Assessment Team are implemented, ensure that actionable metrics and measures, including compliance results and the impact on compliance, are incorporated and timely acted upon to ensure that the most productive inventory is provided to the LB&I Division's resources.

IRS management agreed with all of TIGTA's recommendations.

Reference No. 2019-30-066

Achieving Program Efficiencies and Cost Savings

E-mail Records Management Is Generally in Compliance With the Managing Government Records Directive

The National Archives and Records Administration (NARA) and the Office of Management and Budget issued memorandum M-12-18, *Managing Government Records Directive*, dated August 24, 2012. According to this directive, "Records are the foundation of open Government, supporting the principles of transparency, participation, and

collaboration. Well-managed records can be used to assess the impact of programs, to improve business processes, and to share knowledge across the Government. Records protect the rights and interests of people, and hold officials accountable for their actions. Permanent records document our Nation's history." This audit was initiated to determine whether the IRS is adequately managing its temporary and permanent e-mail records in compliance with the *Managing Government Records Directive*.

The IRS's management of e-mail records is generally in compliance with the *Managing Government Records Directive*. The Information Technology organization and the Office of Privacy, Governmental Liaison and Disclosure established a governance structure over the Enterprise Exchange Upgrade Project, ensuring that all NARA e-mail management success criteria have been met. Mailbox migration from Microsoft's Exchange 2010 to Exchange 2016 is substantially complete. Based on TIGTA's review of a sample of employee e-mail accounts, it appeared that the accounts had the appropriate retention settings. In addition, executive e-mail records are retained permanently using the NARA-approved Capstone approach and are scheduled to be transferred annually to the NARA after a 20-year retention period.

However, the Information Technology organization's configuration of Exchange 2016, a commercial off-the-shelf solution, was treated as an infrastructure project and did not comply with the Enterprise Life Cycle⁶ software development methodology's commercial-off-the-shelf development path. Accordingly, the programming of customized scripts and the configuration of systems software parameters were being managed without sufficient controls and oversight that are inherent to the Enterprise Life Cycle software development methodology, e.g., *Business System Report, Simplified Design Specification Report*, and milestone exit reviews.

As a result, TIGTA recommended that the IRS:

- Develop clear and detailed enterprise-wide definitions for software development and infrastructure projects; and
- Ensure that the appropriate Enterprise Life Cycle criteria and methodology are consistently applied.

The IRS agreed with all of TIGTA's recommendations.

Reference No. 2019-20-060

⁶ The Enterprise Life Cycle is a structure that provides guidance and requirements for software development projects as they move from the vision strategy phase to system deployment.

Protect the Integrity of Tax Administration

TIGTA is statutorily mandated to protect the integrity of Federal tax administration. TIGTA accomplishes this 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, both of which undermine the integrity of the Nation's voluntary tax system.

The Performance Model

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

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

The Office of Investigations has adopted performance measures that identify results derived from 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 returns or return information; and identity theft.

During this reporting period, employee integrity investigations accounted for 43 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 fraud scheme.

The following case represents OI's efforts to investigate identity theft committed by IRS employees during this six-month reporting period:⁷

IRS Employee Arrested in Connection With Identity Theft and Scheme to Defraud the IRS

On April 23, 2019, in the Eastern District of California, TIGTA special agents arrested IRS employee Deena Vang Lee for her role in a scheme to defraud the IRS and the United States. Lee was previously charged, on April 11, 2019, with multiple counts each of wire fraud, aggravated identity theft, making and subscribing a false and fraudulent tax return, and aiding and assisting in the preparation of a false and fraudulent return.

According to the 18-count indictment, at certain times relevant to the charges, Lee was employed at the IRS Fresno Service Center. From about February 2012 to about February 2016, Lee prepared and electronically filed fraudulent Federal income tax returns for friends, family members, and acquaintances. She charged many of her customers a tax preparation fee of between \$100 and \$400 for her services.

Lee allegedly included false information on forms that she prepared and submitted for her customers to claim the Child and Dependent Care Expenses tax credit. The IRS requires a form when a taxpayer claims a tax credit for expenses paid for the care of a qualifying individual. The form must include the care provider's name, address, Social Security Number (SSN), and amount paid to the provider. Lee fabricated the means of identification of multiple individuals and listed them (the "False Providers") when preparing the forms. She also fabricated childcare expenses purportedly paid to the

⁷ The facts in the summarized case narrative come from court documents of the respective jurisdiction.

alleged providers, when in actuality, the false providers did not provide childcare to the customers, nor did the customers pay the false providers for childcare.

It is further alleged that Lee falsely inflated and/or fabricated expenses on forms she submitted for her customers to claim the American Opportunity tax credit. For those customers for whom Lee sought the credit, she typically falsely claimed the maximum adjusted qualified education expenses allowed per student. Lee also listed false dependents on her customers' returns.

In certain cases, Lee's actions resulted in the IRS either issuing excessive tax refunds via direct deposit into bank accounts controlled by the customers or Lee, or not collecting the correct amount of tax owed by the customers. Lee's actions resulted in a tax loss to the IRS of more than \$20,000.

In addition, Lee prepared and submitted, under penalties of perjury, fraudulent Federal income tax returns on her own behalf for TYs 2013 through 2015, which did not include income she received from customers for her tax preparation services.

If convicted, Lee could face a maximum statutory penalty of up to 20 years' imprisonment and a \$250,000 fine.

Employee Integrity

The following cases represent OI's efforts to address employee integrity during this six-month reporting period:⁸

IRS Employee Pleads Guilty to the Unauthorized Disclosure of Suspicious Activity Reports

On August 14, 2019, in the Northern District of California, IRS employee John C. Fry pled guilty to the unauthorized disclosure of Suspicious Activity Reports (SARs). Fry was previously indicted for the offense in February 2019.

According to court documents, at the time of the indictment, Fry was an investigative analyst for IRS Criminal Investigation (IRS-CI) in San Francisco, California, and had worked for the IRS since 2008. In this position, he had access to various law enforcement databases, including the Financial Crimes Enforcement Network (FinCEN) and Palantir, which is an analytic software used by IRS-CI. FinCEN manages the collection and maintenance of SARs, which financial institutions are required to generate under the Bank Secrecy Act to report potentially suspicious financial transactions. The disclosure of a SAR or its contents is unlawful, and employees or agents of Government authorities are prohibited from disclosing a SAR, or any information that would reveal even the existence of a SAR, except as necessary to fulfill official duties.

Fry admitted that on May 4, 2018, he logged on to the Palantir database from his work computer and downloaded five SARs related to Michael Cohen and his company, Essential Consultants. Fry then called Michael Avenatti, an attorney based in Newport

⁸ The facts in the summarized case narratives come from court documents of the respective jurisdictions.

Beach, California, twice from his personal cell phone. During those conversations, Fry verbally provided information contained in the five SARs to Avenatti. Fry also used one of his personal e-mail accounts to e-mail screenshots of the SARs to Avenatti. Fry admitted that on May 7, 2018, he logged on to the FinCEN database from his work computer and conducted additional searches related to Cohen and Essential Consultants. He then called Avenatti from his personal cell phone and verbally provided information contained in the searches. Fry admitted that he had no official reason in his capacity as an IRS investigative analyst to disclose SAR records related to Cohen or the various companies listed in the SARs.

On May 8, 2018, Avenatti circulated a dossier on his public Twitter account releasing the confidential banking information related to Cohen and Essential Consultants. On May 8, 2018, The Washington Post published an article that discussed in detail claims about Cohen's banking history made public in Avenatti's dossier. On May 12, 2018, Fry placed an outgoing call to a number later identified as being associated with a reporter. On May 16, 2018, The New Yorker published an article written by this reporter titled "Missing Files Motivated the Leak of Michael Cohen's Financial Records." The article reported that the source, identified only as a law enforcement officer, grew alarmed after being unable to find two important SARs regarding Cohen's financial activity. In fact, access to the two SARs in question had been restricted and they were not available to all FinCEN users.

Fry could face a maximum of five years' imprisonment and a \$250,000 fine. Sentencing in this matter is scheduled for December 18, 2019.

IRS Employee Pleads Guilty to Soliciting and Receiving Bribe

On July 24, 2019, in the Central District of California, IRS employee Felecia Taylor pled guilty to soliciting and receiving a bribe in her capacity as a public official. TIGTA special agents previously arrested Taylor in May 2019, when she was charged with the offense.

According to court documents, Taylor corruptly sought and received something of value in return for being influenced in the performance of an official act. Taylor had been employed by the IRS since February 1990 as a tax specialist. Taylor's duties included planning and conducting examinations of individual and business taxpayers.

On May 1, 2019, a taxpayer reported that he met with Taylor at her Long Beach office regarding an IRS audit of his 2017 Federal income tax return. Taylor corruptly sought a \$5,000 cash bribe while in the performance of her official duties, in exchange for lowering the taxpayer's tax liability. She also scheduled a follow-up meeting.

On May 7, 2019, the taxpayer had a meeting with Taylor at her Long Beach office, which was monitored by law enforcement. Taylor provided adjusted tax records that showed a reduction of the taxpayer's tax liability to approximately \$10,616, the number agreed to at their prior meeting. In exchange, the taxpayer provided Taylor with the \$5,000 cash bribe payment, which she accepted.

Taylor could face a maximum statutory penalty of 15 years' imprisonment and a fine of \$250,000.

IRS Supervisor Sentenced for Theft of Government Property

On June 3, 2019, in the Central District of California, IRS supervisor Leslie Williams was sentenced on two counts of theft of Government property. Williams was initially indicted for the offenses in March 2018 and pled guilty in January 2019.

According to court documents, at all times relevant to the charges, Williams was employed by the IRS as a supervisory individual tax advisory specialist in the Long Beach, California office. Beginning on or about February 12, 2016, Williams knowingly and willfully embezzled, stole, and converted for her own use Federal funds as the purported surviving spouse of her ex-husband, who had died on about January 22, 2016, and from whom she had been divorced since November 15, 2013. Specifically, Williams claimed that, as the alleged surviving spouse, she was entitled to receive death benefit payments issued by the Office of Personnel Management (OPM), as well as retirement plan contributions issued by the Federal Retirement Thrift Investment Board (FRTIB). In total, Williams stole \$34,204.50 from OPM and \$36,861 from FRTIB.

Additionally, on February 14, 2017, when interviewed by TIGTA special agents, Williams allegedly made a materially false statement by continuing to claim that she was married to her ex-spouse until his death, when, in fact, Williams knew she had been divorced since November 15, 2013.

Williams was sentenced to three years' probation to run concurrently with six months' home detention. She was further ordered to pay \$71,065.74 in restitution.

Employee Integrity Projects

As part of its employee integrity focus, TIGTA also conducts proactive investigative initiatives to detect misconduct in the administration of IRS programs. During this reporting period, TIGTA initiated five 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 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. In addition to traditional direct threat vectors, TIGTA also actively pursues, investigates, and mitigates emerging threats to the IRS's ability to conduct Federal tax administration in cyberspace.

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 24 armed escorts for IRS employees.

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

The investigative information sharing between OI and the IRS’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 potential danger to IRS employees.

During this six-month reporting period, employee and infrastructure security investigations accounted for 49 percent of OI’s work.

The following case represents OI’s efforts to ensure the safety of IRS employees during the reporting period:⁹



Miami Tax Services Provider Sentenced for Forcibly Assaulting and Threatening IRS Employee With Shotgun

On April 22, 2019, in the Southern District of Florida, tax services provider Jimmy Sierra was sentenced for forcibly assaulting an IRS revenue officer who was engaged in the performance of his official duties. Sierra was indicted for the offense in June 2018, and he pled guilty in February 2019.

According to court documents, on or about May 21, 2018, the revenue officer conducted a field visit to collect a tax payment from a tax business in Miami, Florida, of which Sierra is a registered agent. Upon arrival, the revenue officer identified himself to Sierra as an IRS employee and presented his IRS credentials. Sierra subsequently invited the revenue officer inside. Once they were inside Sierra’s office, Sierra pushed a button on his phone and another male showed up in his office. Sierra opened a drawer in his desk and pulled out what appeared to be a shotgun, pointed it at the unarmed revenue officer, and stated in part, “You want money...? I’m going to shoot you. You want it in the balls or you want

⁹ The facts in the summarized case narrative come from court documents of the respective jurisdiction.

it in the chest?” The revenue officer believed that Sierra had a fully functioning firearm and intended to shoot him. At that time, the revenue officer backed away, again displayed his IRS-issued credentials, and called 911.

Sierra again stated aloud to the other male that he was going to shoot the revenue officer. The revenue officer, believing that he was in a fight for his life, grabbed the shotgun stock and wrestled with Sierra over the weapon. During the exchange, Sierra struck the revenue officer, who sustained injuries. The revenue officer was able to flee Sierra’s office and was later transported to a hospital for medical attention.

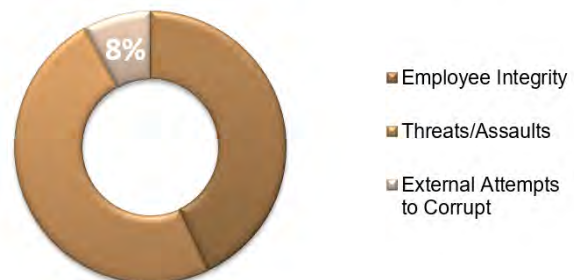
Sierra was sentenced to time served followed by two years of supervised release. He was further ordered to pay \$1,550 in restitution.

Performance Area: External Attempts to Corrupt Tax Administration

TIGTA also investigates external attempts to corrupt or impede tax administration. Individuals may interfere with the IRS’s ability to collect revenue for the United States in many ways. For instance, they may impersonate IRS employees or misuse IRS seals and symbols; file false or frivolous documents against IRS employees; use fraudulent IRS documentation to perpetrate criminal activity; offer bribes to IRS employees to influence their tax cases; commit fraud in contracts awarded by the IRS to contractors; or commit cybercrimes. 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.

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

External Attempts to Corrupt



Corrupt Interference

The following cases represent OI’s efforts to address and deter external attempts to corrupt tax administration during this six-month period:¹⁰

Jury Finds Man Guilty on All Eight Counts of Indictment in Scheme to Defraud the Internal Revenue Service

On June 28, 2019, in the Western District of New York, a jury found Emmanuel Guobadia guilty on four counts of wire fraud and four counts of aggravated identity theft in

¹⁰ The facts in the summarized case narratives come from court documents of the respective jurisdictions.

connection with a scheme he devised to defraud the IRS. Guobadia had previously been indicted for the offenses in April 2016.

According to court documents, between about May 2012 and July 2012, Guobadia electronically filed fraudulent Federal income tax returns using the names and SSNs of others and claimed tax refunds to which he was not entitled. As part of the scheme, 628 fraudulent tax returns claiming a total of \$1,252,524 in fraudulent tax refunds were filed with the IRS for TY 2011. Of those attempted refund claims, the IRS electronically deposited \$178,658 in tax refunds into bank accounts owned by a third-party individual known to the court, as directed on the returns.

On four occasions, Guobadia also directed the third-party individual, who was located in New York, to wire transfer fraudulently obtained funds into his bank account located in the State of Georgia.

In October 2013, Guobadia was arrested, and several laptop computers were seized. Search warrants obtained for the contents of the computers resulted in the identification of approximately 2,000 unique names with associated PII, bank account information, and electronic return originator (ERO) passwords. When a tax return is filed online through an ERO, the return preparer must provide a unique password for that return.

Guobadia could face a maximum statutory penalty of 20 years' imprisonment and a \$250,000 fine for the charge of wire fraud. He could face a mandatory statutory sentence of two years' imprisonment for the charges of aggravated identity theft, to run consecutively with the sentence imposed for the wire fraud violations. Sentencing is scheduled for October 2, 2019.

Georgia Man Sentenced for Offering IRS Employee \$30,000 to Falsify Audit Results

On May 14, 2019, in the Northern District of Georgia, Magdaleno Garcia Alonso was sentenced for bribery of a public official. Alonso had previously been indicted for the offense in November 2018 and had pled guilty in February 2019.

According to court documents, on or about September 19, 2018, Alonso offered an IRS revenue agent \$30,000 with the intent of inducing the revenue agent to commit an act that was in violation of his or her lawful duties. Specifically, Alonso offered the revenue agent \$30,000 to falsify the audit results of Alonso's personal Federal income tax returns and the returns of Acworth Georgia Concrete, Incorporated, for TYs 2015 and 2016.

Alonso was sentenced to 24 months' imprisonment followed by one year of supervised release.

Coconspirators Plead Guilty in Connection With Scheme Involving Stolen Federal Tax Refund Checks

In July 2019, in the Western District of Missouri, Dante Chestnut and Frances Wright pled guilty for their roles in a scheme involving the theft of U.S. Treasury tax refund checks. Dante Chestnut pled guilty on July 25, 2019, to conspiracy to commit bank fraud, bank

fraud, and aggravated identity theft. The following day, Frances Wright pled guilty to bank fraud. Chestnut and Wright were previously indicted for the offenses, along with coconspirators Branden Belvin, Mistie Smith, Susannah Lesaisaea, Cassandra Franklin, Sharieff Sylvester, and Joseph Hooks, in May 2018.

According to court documents, Belvin and Smith obtained approximately 99 U.S. Treasury checks that had been stolen from the U.S. Postal Service mail stream. The U.S. Treasury checks had been issued for tax refunds and were printed and mailed in Kansas City, Missouri. The coconspirators then 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. They used false identification documents 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. Chestnut cashed 23 U.S. Treasury tax refund checks in this manner totaling \$115,760, and Wright cashed eight checks totaling \$24,970. The scheme resulted in the fraudulent negotiation of approximately 99 checks with a total financial loss of approximately \$447,517.

Coconspirators Smith, Hooks, and Sylvester were previously sentenced to a cumulative total of nine years imprisonment. Smith was further ordered to pay restitution in the amount of \$441,056.27, of which Hooks is jointly and severally liable for \$31,910, and Sylvester for \$20,416. Coconspirator Belvin was arrested in August 2019, and additional legal actions are anticipated.

Chestnut could face a maximum statutory sentence of five years' imprisonment for conspiracy, 30 years' imprisonment for bank fraud, plus a mandatory consecutive sentence of two years' imprisonment for aggravated identity theft. Wright could face a maximum statutory sentence of 30 years' imprisonment for bank fraud.

Men Pled Guilty to Charges Related to Attempting to Obtain the President's Tax Returns

On September 5, 2019, in the Eastern District of Pennsylvania, Andrew Harris pled guilty to charges arising from his using someone else's username to access a school computer and attempting to obtain the tax returns of President Donald Trump, without permission, from the IRS. Codefendant Justin Hiemstra pled guilty in August 2019, for his involvement. Hiemstra and Harris were charged with the offenses on July 17, 2019.

According to court documents, Hiemstra and Harris, two students at Haverford College, went to the school's computer lab and attempted to obtain President Trump's tax returns via the Free Application for Federal Student Aid (FAFSA) website. Hiemstra and Harris opened a false FAFSA application in the name of a member of the Trump family and found that someone else had already obtained a Federal Student Aid Identification (FSA-ID) for President Trump and an identification password. In general, before beginning one's very first FAFSA application, an individual registers with the Office of Federal

Student Aid. Once registered, the individual obtains a unique identifier, known as an FSA-ID, essentially the equivalent of a username. Once the individual has activated the FSA-ID, the individual can complete the first FAFSA application, and any subsequent applications, through the FAFSA website.

In order to reset the identification password, Hiemstra and Harris were required to answer challenge questions, which that other individual had originally created when first setting up the FSA-ID and password. They were able to do so and reset the password. Using President Trump's personal identifiers, including his SSN and date of birth, Hiemstra and Harris unsuccessfully attempted to import President Trump's Federal tax information into the false FAFSA application they had initiated in the name of a Trump family member.

When questioned by law enforcement, Harris stated that he came up with the idea of using the FAFSA process in an attempt to obtain President Trump's Federal tax information. Hiemstra stated that credentials from two other Haverford College students were used to access the two computers that he and Harris used. Hiemstra and Harris could each face a maximum statutory penalty of one-year imprisonment and a \$100,000 fine for each count. Sentencing for both is scheduled for December 16, 2019.

Scams and Schemes

Individuals may corrupt tax administration by impersonating IRS employees in an effort to obtain PII from unsuspecting taxpayers or to steal their money. Such impersonators 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. They often tell their victims that they owe money to the IRS and must pay through a preloaded debit card, wire transfer, or gift card from Apple iTunes®, Walmart™, or Target™. Sometimes they trick taxpayers into providing their PII, which the impersonator then uses to commit identity theft.

TIGTA aggressively investigates these criminal activities to ensure that taxpayers maintain confidence in the integrity of Federal tax administration.

Impersonation Scams

For more than 10 years, the IRS has compiled an annual list of commonly encountered scams, called the "Dirty Dozen" list of tax scams. 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 that list.

Between October 2013 and September 2019, TIGTA logged more than 2.5 million contacts from taxpayers who reported that they had received telephone calls from individuals who claimed to be IRS employees.

The impersonators told the victims that they owed additional tax and that if they did not immediately pay, they would be arrested or face other adverse consequences.

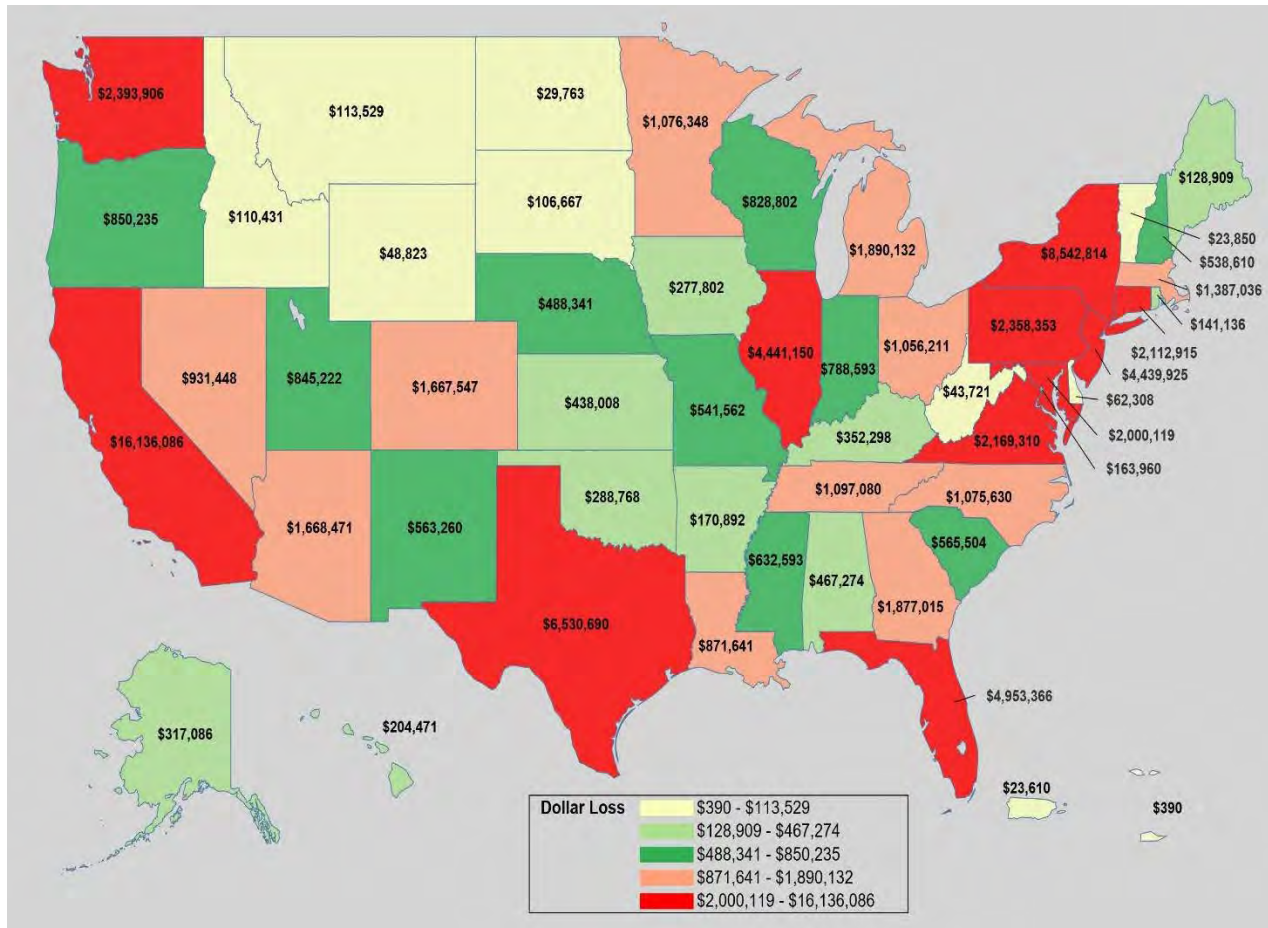
As of September 30, 2019, 15,780 victims have reported to TIGTA that they had lost upwards of \$79.7 million, collectively, to the scam's perpetrators.

“Over the last several years, American taxpayers have been subjected to unprecedented attempts to fraudulently obtain money by individuals impersonating Internal Revenue Service employees. Victimizing taxpayers by impersonating IRS employees is a serious crime. TIGTA and our law enforcement partners will continue working to ensure that those involved in the impersonation of IRS employees are prosecuted to the fullest extent of the law.”

J. Russell George
 Treasury Inspector General
 for Tax Administration
 DOJ Press Release
 April 1, 2019

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, Florida, and Illinois.

Financial Losses by State



Source: TIGTA’s Office of Investigations

In addition to its investigative efforts, TIGTA has taken numerous other steps to proactively 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 receive is 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 199,789 auto-dialed calls back to the scammers. As of September 30, 2019, more than 1,403 telephone numbers associated with the scam have been identified using the Advise and Disrupt strategy, and 98 percent of them have been successfully shut down, in some cases within a week.

Tax-related identity theft and IRS impersonation telephone scams strain limited IRS and TIGTA resources and challenges the integrity of Federal tax administration. TIGTA is 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 continues to work 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 recently participated in an FTC law enforcement roundtable meeting to discuss ways of combatting and collaborating on impersonation investigations.

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 calls¹¹ 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 a major telecom carrier to block almost 2 million calls that had been spoofed to appear as though the calls originated from the IRS.

As the impersonation scams 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,

¹¹ Call spoofing is the practice of causing the telephone network to indicate to the receiver of a call that the originator of the call is a station other than the true originating station.

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.

While the scope, complexity, and magnitude of the IRS impersonation scam continues to present significant challenges, TIGTA remains the Federal Government's best defense to combat this pervasive scam. TIGTA must continue to evolve its aggressive investigative efforts to ensure individuals, especially vulnerable populations, do not fall victim.

Most recently, in July 2019, TIGTA's OI completed training for the first iteration of the Cyber Investigative Cadre (CIC) program. The purpose of this program is to enhance TIGTA's investigative capacity in these areas that are being actively targeted and exploited by bad actors in the cyber arena, to include the IRS impersonation scam, by offering highly specialized and technical training to a group of TIGTA special agents, nationwide. The CIC program seeks to expand TIGTA's capability to respond to and mitigate these ever-growing threats to our Nation's critical infrastructure. TIGTA's cyber program has been actively involved in interdicting and disrupting cyber-based schemes employed by illicit actors to steal identities, and impersonate the IRS as well as taxpayers. TIGTA is committed to proactively defending and preparing for the myriad of sophisticated daily attacks that seek to exploit and undermine the IRS's ability to effectively conduct electronic Federal tax administration.

The following cases are representative of OI's efforts to investigate IRS impersonation scams during this six-month reporting period:¹²

Indian National Extradited to the United States to Face Charges for His Role in a Complex Impersonation Scam

According to a DOJ press release, Hitesh Madhubhai Patel has been extradited to the United States to face charges of conspiracy to defraud the United States, conspiracy to commit wire fraud, and money laundering conspiracy, in connection with his leadership role in a multimillion-dollar India-based call center scam which targeted U.S. victims. A TIGTA special agent was part of the team that extradited Patel from Singapore to the Southern District of Texas, where his initial appearance was held on April 19, 2019. Patel was previously indicted for the offenses in October 2016, along with 55 other individuals

¹² The facts in the summarized case narratives come from court documents of the respective jurisdictions.

and five call centers, in what was at that time the largest single domestic law enforcement action involving the IRS impersonation scam.

In an April 2019 press release, TIGTA Inspector General J. Russell George stated, “Today’s extradition and arraignment are proof that TIGTA and its law enforcement partners will be equally relentless in rooting out individuals who fraudulently identify themselves as IRS employees in order to extort money from taxpayers. We especially appreciate the cooperation of the Government of Singapore for its role in the extradition.”

According to court documents, Patel was identified as an operator of the India-based call center HGlobal. From about January 2012 and continuing until about October 2016, Patel and his coconspirators participated in a complex scheme to defraud U.S. residents by misleading them into sending money in connection with several 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 one of the scams, the coconspirators impersonated U.S. Citizenship 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.

Previously, between July 18, 2018 and July 20, 2018, in the Southern District of Texas, 21 defendants were sentenced for their roles in connection with this complex scam, with three others having been sentenced earlier in 2018. The cumulative total of the prison sentences for the 21 defendants sentenced in July 2018 exceeded 174 years.

Six Individuals Sentenced for Their Roles in Sophisticated Impersonation Fraud

Between March 25, 2019 and May 29, 2019, in the Middle District of Florida, six defendants were sentenced for their roles in a conspiracy involving a sophisticated IRS impersonation and loan scam. The defendants had previously been charged with their respective offenses in 2018.

According to court documents, beginning August 2014 and continuing until June 2016, the defendants, in connection with India-based call centers, participated in a scam in which callers impersonated IRS employees or loan officers to extort money from U.S. residents. The callers induced fear in their victims with threats of prosecution and/or arrest for purported Federal tax violations or unpaid loans, unless the victims paid alleged taxes, fines, and/or fees immediately. Some of the victims were instructed to purchase prepaid stored-value cards and then provide the unique serial numbers of those cards to the caller or payment processor, an individual who instructs victims to make payments and facilitates the movement of victims’ funds throughout the United States. Other victims were directed to transmit money using money services businesses or to deposit money into various bank accounts. If a victim was defrauded through prepaid stored-value cards, the conspirators would obtain general purpose reloadable (GPR) debit cards and transmit the unique identification numbers on those cards via interstate and foreign wire communications to other conspirators. Those individuals activated the GPR cards by

registering them online or by telephone, using the PII of U.S. residents without their consent. Conspirators would then either withdraw fraudulent proceeds from the GPR cards, retrieve fraudulent proceeds from the money-transmitter services, or withdraw fraudulent proceeds from bank accounts.

Defendants Hemalkumar Shah and Nishitkumar Patel served dual roles in this scheme. As domestic managers, they recruited, hired, and directed runners to pick up funds wired by victims. They directed runners to open bank accounts to receive fraudulent proceeds, provided runners with transportation, collected fraudulent proceeds from runners, and disbursed fraudulent proceeds in accordance with directives received from conspirators in India. As runners, they would purchase GPR cards, forward the card numbers to conspirators, purchase money orders and obtain cash with GPR cards funded with fraudulent proceeds. They would retrieve cash payments made by victims via money-transmitter services, and retrieve victims' funds that had been deposited into bank accounts. Shah and Nishitkumar Patel had previously pled guilty to conspiracy to commit wire fraud and aggravated identity theft. Sharvil Patel's role in this scheme was that of a domestic manager, and he had previously pled guilty to conspiracy to commit wire fraud.

The roles of defendants Alejandro Juarez and Brenda Dozier were to pick up fraudulently-obtained funds from money-transmitter services that had been wired by the victims and then either to provide cash to other U.S.-based conspirators and/or to deposit the funds into U.S. bank accounts as directed. Both had previously pled guilty to conspiracy to commit money laundering.

According to court documents, defendant Anthony Trujillo knowingly received stolen monies valued at \$5,000 or more by transporting said monies from California to Florida. Trujillo had previously pled guilty to possession and receipt of stolen, unlawfully converted, or taken property.

The cumulative total of the prison sentences for defendants Sharvil Patel, Shah, Nishitkumar Patel, Juarez, and Dozier is 333 months. Further, each term is to be followed by 36 months of supervised release. Trujillo was sentenced to 60 months' probation. The defendants will be required to pay more than \$3.1 million in restitution.

Tax Preparer Outreach

In addition to promoting employee integrity, TIGTA is also committed to tax preparers' education on integrity. Tax preparers play an important role to ensure 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, ensure that taxpayers comply with Internal Revenue laws, or they can impede it.

During this semiannual reporting period, TIGTA special agents provided 31 integrity presentations to tax preparers at various locations nationwide. The presentations detailed 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 3,161 tax preparers attended presentations at the IRS Nationwide Tax Forums, held in the following cities: San Diego, California; Orlando, Florida; Chicago, Illinois; New Orleans, Louisiana; and National Harbor, Maryland. 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:¹³

Tax Preparer Sentenced for Wire Fraud and Subscription to False Returns

On June 12, 2019, in the Central District of California, tax preparer Aaron Joshua was sentenced for wire fraud and subscription¹⁴ to a false tax return. Joshua was previously charged with, and pled guilty to, the offenses in September 2018.

According to the plea agreement, Joshua was the owner and operator of a tax preparation business that operated under the names Joshua Management Group and The Joshua Group, LLC (collectively referred to as JMG), and that he used to prepare Federal and State income tax returns for clients.

From about 2010 until at least February 2017, Joshua devised and executed a scheme to defraud his clients by obtaining monies for himself that were due to JMG’s clients. Without the knowledge or authorization of his clients, Joshua instructed the IRS to deposit portions of his clients’ refunds into his bank accounts. In some cases, these deposits exceeded the amounts agreed upon for his tax preparation fees.

For example, Joshua prepared individual tax returns for one victim for five separate tax years and charged the client approximately \$300 for each return. For each year, Joshua provided the client with an electronic copy of a tax return claiming a significantly smaller tax refund than what was claimed on the return that Joshua filed with the IRS. In addition, Joshua attached an IRS Form 8888, *Allocation of Refund*, containing the taxpayer’s name and SSN, to each of the filed returns. However, Joshua’s client did not authorize him to attach these allocation forms, which stated significantly higher refund amounts than were claimed on the client’s copies of the returns. Joshua directed that the overages, *i.e.*, the differences between the refund amounts claimed in the filed returns and the refund amounts stated on the client copies, to be paid into his bank accounts.

Between 2011 and 2016, portions of 212 Federal tax refunds totaling approximately \$444,648 were deposited into Joshua’s bank accounts and other bank accounts used in the scheme.

¹³ The facts in the summarized case narratives come from court documents of the respective jurisdictions.

¹⁴ The affixing of one’s signature to any document, whether for the purpose of authenticating or attesting to it, of adopting its terms as one’s own expressions, or of binding one’s self by an engagement to which it contains.

Additionally, Joshua submitted a false individual tax return for his own account in 2015, claiming income of only \$10,346, when, in fact, he knew that he had additional income of approximately \$133,923 for the tax year.

Joshua was sentenced to 20 months' imprisonment followed by three years of supervised release. He was further ordered to pay \$444,648 in restitution.

Florida Tax Preparer Pleads Guilty in Scheme Involving Wire Fraud

On August 16, 2019, in the Southern District of Florida, Fort Lauderdale tax preparer Deborah Thomas pled guilty to three counts of wire fraud in connection with a scheme to misappropriate her clients' monies, which had been intended to satisfy taxes owed to the IRS. Thomas was previously indicted for the offenses in May 2019.

According to the indictment, from April 2015 through May 2018, Thomas worked as a tax preparer at a public accounting firm. In an effort to unjustly enrich herself, she registered Global Business Concepts, LLC (operating as U.S. Treasures). She subsequently opened a bank account in the name of that business, where she then deposited fraudulently-obtained checks.

Thomas instructed some of her clients who owed money to the IRS to write checks payable to "U.S. Treasury." She then had the checks stamped or altered, making it difficult to see the last letters of the payee. Thomas instructed other clients, whose primary language was not English, to make checks payable to "U.S. Treasures" or "U.S. Treasure." Thomas did not give those client checks to the IRS, but instead deposited them into her U.S. Treasures account through automated teller machines in Fort Lauderdale, Florida. Images of the deposited checks were then transmitted via wire communication to servers located in Richardson, Texas, allowing them to be credited to Thomas' own business bank account. The fraudulent proceeds obtained by Thomas totaled more than \$654,779.

Thomas could face a maximum statutory sentence of 20 years' imprisonment and a \$250,000 fine.

Advance 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 decision makers 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.

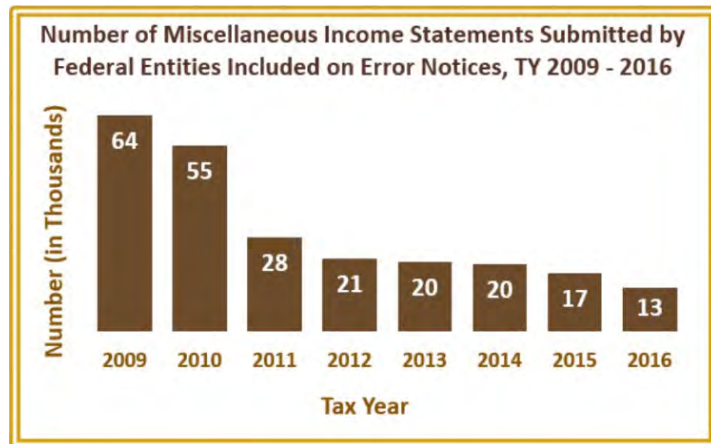
The following report highlights some of I&E's most significant activities during this six-month reporting period:

Improved Communication and Outreach With Federal Entities Could Further Reduce the Number of Incorrect Miscellaneous Income Statements Filed Each Year

The Form 1099-MISC, *Miscellaneous Income*, is an information return statement used by Federal entities to account for reportable payments generally of \$600 or more. Reportable payments can include nonemployee compensation, medical payments, rents, and proceeds paid to attorneys. In TY 2015, Federal entities reported more than \$520 billion in miscellaneous income payments to the IRS on nearly 750,000 information return statements. The IRS reviews the accuracy of the Taxpayer Identification Number (TIN) information contained on miscellaneous income statements and when incorrect information is identified, may provide Federal entities with notification of the mismatches.

Federal entities are required to file accurate tax information statements listing reportable payments and potentially perform backup withholding when the payee TIN is missing or when notified by the IRS that the payee TIN is incorrect. Accurate TINs are essential to the success of IRS programs that match tax information reported by payers against filed tax returns to determine whether payees subsequently filed and reported the payments on their income tax returns.

According to IRS data, Federal entities have significantly improved the accuracy of payee TINs submitted on Forms 1099-MISC. Between TY 2009 and TY 2016, the number of miscellaneous income statements submitted by Federal entities with missing or incorrect payee TINs listed on error notices has fallen 80 percent.



The IRS attributes these improvements to a General Services Administration TIN matching program that matches Federal payee information against IRS records at the time a company or individual registers to do business with the Federal Government.

According to IRS data, in TY 2015, Federal entities were notified by the IRS of more than 17,000 miscellaneous income statements with missing or incorrect TINs that reported more than \$5 billion in payments. However, TIGTA found that few Federal entities withheld Federal income tax, despite notification of their responsibility to do so. TIGTA estimates that these Federal entities could have potentially withheld nearly \$400 million in backup withholding in TY 2015 for missing and incorrect TINs if all payments were reportable and not exempted from backup withholding provisions.

TIGTA discussed the notification process with five Federal entities that received a notice from the IRS for missing or incorrect TINs submitted on TY 2015 miscellaneous income statements. The entities expressed concerns regarding technological barriers to accessing the notice and accounting systems that were not capable of performing backup withholding, among other concerns.

TIGTA recommended that the IRS explore alternative notification processes and conduct outreach activities with Federal entities so that they understand their filing and withholding requirements.

The IRS partially agreed with TIGTA's recommendation to conduct outreach activities with Federal entities. IRS management stated that it has developed resources, available on the IRS website, for all entities to help them understand their filing and withholding requirements. The IRS disagreed with TIGTA's recommendation to explore alternative notification processes stating that it does not currently have an established file sharing system to transmit files to Federal agencies.

Reference No. 2019-IE-R005

Congressional Testimonies

On May 9, 2019, Inspector General J. Russell George testified before the House Committee on Ways and Means On the Tax Gap and Taxpayer Noncompliance.

In his testimony, the Inspector General defined the Tax Gap, and discussed opportunities for the IRS to improve taxpayer compliance. The Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount paid voluntarily and on time and is estimated to be \$458 billion per year. IRS studies have shown that audits have the greatest impact on tax compliance. Due to diminished resources, the number of IRS Examination personnel has decreased 38 percent from FY 2010 to FY 2017. Consequently, the number of audits has also decreased by 32 percent from 1.6 million in FY 2013 to 1.1 million in FY 2017.

The Inspector General testified that additional funding for compliance programs would enhance compliance efforts. In addition, TIGTA has identified compliance program improvements that would require little, if any, additional resources.

For example, a significant shift is taking place in our Nation's economy with the evolution of the gig economy. Because the IRS lacks a strategy to address this development, billions of dollars in potential tax discrepancies that involve taxpayers' earnings in the gig economy are not reported and addressed. Due to this missed opportunity, many cases with discrepancies are overlooked, and thousands of gig economy-related cases are not scrutinized.

Another example of needed improvements in compliance programs involves tip income, which constitutes approximately 10 percent of the underreported component of the Tax Gap. The IRS is not adequately examining non-compliance in this area.

His testimony further addressed the fact that virtual currencies continue to present a significant risk to tax administration, due to the anonymity of such transactions and the lack of third-party information reported to the IRS. The IRS has yet to develop a compliance strategy with respect to virtual currencies. It must provide additional guidance to assist taxpayers with their tax compliance and revise third-party information reporting documents to identify virtual currency-related transactions.

Recent TIGTA reviews have found that the IRS lacks processes to address significant employer and payer non-compliance with reporting and remitting taxes withheld.

On September 26, 2019, the Inspector General testified before the House Appropriations Subcommittee on Financial Services and General Government regarding IRS Oversight Issues.

In his testimony, the Inspector General focused on several of the challenges currently facing the IRS, with emphasis on the IRS's performance during the 2019 Filing Season and the agency's efforts to reduce the Tax Gap.

The Inspector General stated that the IRS overcame several challenges to successfully complete the 2019 Filing Season. For example, to implement the TCJA as well as the redesigned Form 1040, the IRS needed to update a substantial volume of tax forms, instructions, and publications. In addition, significant computer programming changes were necessary.

This filing season was also impacted by the partial shutdown of the Federal Government for approximately one month, the Inspector General stated. During this time, taxpayers were unable to obtain customer service, a backlog of paper tax returns and taxpayer correspondence developed, and hiring of Submission Processing employees was delayed. However, despite the shutdown, the IRS began accepting and processing individual tax returns on January 28, 2019, three days after the government reopened.

The Inspector General also addressed the Tax Gap, the difference between what taxpayers owe and what they pay timely, that is estimated to be \$458 billion dollars annually. The underreporting of income taxes comprises the largest component of the Tax Gap at \$387 billion dollars annually.

IRS studies have shown that audits have the largest impact on tax compliance, the Inspector General stated. However, the number of audits has decreased by approximately 28 percent from 1.4 million in FY 2014 to less than one million in FY 2018. Proposed assessments have declined over the last 5 years, from \$33 billion dollars in FY 2014 to \$27 billion dollars in FY 2018.

Due to diminished resources, the IRS had 627 fewer revenue agents in FY 2018 than in FY 2017, an almost 8 percent decline. From fiscal year 2014 to 2018, there was a 23 percent decline in revenue agents from 9,870 to 7,649.

Nonpayment of taxes owed is a smaller portion of the Tax Gap, estimated to be \$39 billion annually. Reductions in resources have also impacted payment compliance. From FY 2014 to FY 2018, field revenue officers have decreased by approximately 23 percent from 2,809 to 2,168.

The IRS's FY 2020 budget requests additional funding for compliance positions to address some of the attrition that has occurred over the last five years. Funding to slow attrition, improved use of existing resources, and legislative changes in selected areas could have a significant effect in increasing compliance and tax revenue.

For example, the IRS is not working billions of dollars in potential tax discrepancies involving taxpayers who earn income in the gig economy but do not report the income. Treasury Regulations do not require certain gig economy businesses to report payments made to workers unless the workers earn at least \$20,000 and engage in at least 200 transactions annually. When income information is not reported to the IRS, taxpayers tend to be much less tax compliant.

TIGTA's reviews of compliance with withholding tax reporting and payment provisions have shown that the IRS's lack of enforcement leaves substantial amounts of tax uncollected. In 2016, we reported that due to the lack of enforcement, taxpayers are avoiding the payment of billions of dollars in backup withholding. In 2017, we reported that case selection processes resulted in billions of dollars in potential employer underreported tax not being addressed. More recently, we reported in 2019 that billions of dollars in non-payroll tax withholding discrepancies are not being addressed.

The Inspector General stated that the IRS can more effectively reduce the Tax Gap by developing compliance strategies for the changing economy and using its resources and information reporting more effectively. Congress can assist by ensuring the IRS has the compliance resources necessary and by reducing the information gap wherever possible.

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;
- 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 ¹⁵	Questioned Costs (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	1	\$16	\$0
2. Reports issued during the reporting period	1	\$77	\$0
3. Subtotals (Item 1 plus Item 2)	2	\$93	\$0
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	2	\$14	\$0
b. Value of costs not disallowed	2	\$79	\$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

¹⁵ The report column will not total properly since the two reports with questioned costs contain both disallowed costs and costs not disallowed.

Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued one audit report during this semiannual reporting period with a recommendation that funds be put to better use. The phrase “recommendation that funds be put to better use” means funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- Reductions in outlays;
- Deobligations of funds from programs or operations;
- Costs not incurred by implementing recommended improvements related to operations;
- Avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements;
- Prevention of erroneous payment of refundable credits, e.g., Earned Income Tax Credit; or
- Any other savings that are specifically identified.

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

Reports With Recommendations That Funds Be Put to Better Use		
Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	0	\$0
2. Reports issued during the reporting period	1	\$79,413
3. Subtotals (Item 1 plus Item 2)	1	\$79,413
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	1	\$79,413
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

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 Reports¹⁶	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	6	136,120	\$18,553,433
Revenue Protection	3	524,590	\$8,003,241
Reduction of Burden on Taxpayers	3	115	\$2,838,004
Taxpayer Rights and Entitlements at Risk	7	5,281	\$0
Taxpayer Privacy and Security	1	0	\$0
Inefficient Use of Resources	3	0	\$2,733
Reliability of Management Information	9	99,356	\$1,185,337
Protection of Resources	1	0	\$2,300

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

- Increased Revenue: Reference Numbers 2019-30-024, 2019-40-028, 2019-40-048, and 2019-30-72;
- Revenue Protection: Reference Numbers 2019-40-042, 2019-40-048, and 2019-40-044;
- Inefficient Use of Resources: Reference Numbers 2019-20-038, 2019-20-049; and
- Reliability of Information: Reference Number 2019-10-080.

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

- Taxpayer Burden: Reference Numbers 2019-40-079 and 2019-30-073;
- Taxpayer Rights and Entitlements: Reference Numbers 2019-10-057, 2019-40-079, and 2019-30-073;
- Taxpayer Privacy and Security: Reference Number 2019-30-073; and
- Reliability of Information: Reference Numbers 2019-10-021, 2019-10-015, 2019-20-038, 2019-20-052, 2019-10-080, 2019-10-081, and 2019-30-073.

¹⁶ See Appendix II for identification for audit reports involved.

Investigations Statistical Reports¹⁷

Significant Investigative Achievements	
(April 1, 2019 – September 30, 2019)	
Complaints/Allegations Received by TIGTA	
Complaints Against IRS Employees	2,532
Complaints Against Non-Employees	1,549
Total Complaints/Allegations	4,081
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	873
In Process Within TIGTA ¹⁸	381
Referred to IRS for Action	712
Referred to IRS for Information Only	1,194
Referred to a Non-IRS Entity ¹⁹	0
Closed With No Referral	630
Closed Associated With Prior Investigation	160
Closed With All Actions Completed	131
Total Complaints	4,081
Investigations Opened and Closed	
Total Investigations Opened	1,227
Total Investigations Closed	1,169
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$6,409
Contract Fraud and Overpayments Recovered	\$28,000
Court-Ordered Fines, Penalties, and Restitution	\$5,610,833
Out-of-Court Settlements	0
Potentially Compromised by Bribery	0
Tax Liability of Taxpayers Who Threaten and/or Assault IRS Employees	\$905,915
IRS Assets and Resources Protected Against Malicious Loss	\$52,630
Total Financial Accomplishments	\$6,603,787

¹⁷ Includes the new reporting requirements under the Inspector General Empowerment Act (IGEA) of 2016, Pub. L. No. 114-317, 130 Stat. 1595.

¹⁸ Complaints for which final determination had not been made at the end of the reporting period.

¹⁹ 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	20	51	71
Referred – Declined for Prosecution	202	154	356
Referred – Pending Prosecutorial Decision	8	25	33
Total Criminal Referrals²⁰	230	230	460
No Referral	253	503	756
Criminal Dispositions²¹			
Criminal Disposition	Employee	Non-Employee	Total
Guilty	7	39	46
Nolo Contendere (no contest)	0	0	0
Pretrial Diversion	3	1	4
Deferred Prosecution ²²	0	1	1
Not Guilty	0	0	0
Dismissed	2	3	5
Total Criminal Dispositions	12	44	56
Administrative Dispositions on Closed Investigations²³			
Administrative Disposition	Total		
Removed / Terminated	29		
Suspended / Reduction in Grade	67		
Resigned / Retired / Separated Prior to Adjudication	93		
Oral or Written Reprimand / Admonishment	98		
Clearance Letter / Closed, No Action Taken	80		
Alternative Discipline / Letter With Cautionary Statement / Other	123		
Non-Employee Actions ²⁴	233		
Total Administrative Dispositions	723		

²⁰ Criminal referrals include both Federal and State dispositions.

²¹ 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.

²² 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.

²³ 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.

²⁴ 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, 2019 – September 30, 2019)	
Number of Investigative Reports Issued	427
Referred to the Department of Justice for Criminal Prosecution	402
Referred to State/Local Prosecuting Authorities	25
Number of Indictments and Criminal Informations	59
Indictments	50
Criminal Informations	9

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.

Closed²⁵ Investigations Involving Internal Revenue Service Senior Government Employees²⁶

Detailed Description of the Facts and Circumstances of the Investigation:	Disposition:	Criminal Status:	Date Referred:	If Declined, Date of Declination:
A senior Government employee was alleged to have used IRS funds to upgrade airline tickets from coach to business class while on official travel.	Separated during investigation	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.	Other	No referral made	N/A	N/A
A senior Government employee was alleged to have attempted to circumvent the IRS acquisition process through a sole source small business contract.	Clearance letter	No referral made	N/A	N/A
A senior Government employee was alleged to have stalked and harassed a taxpayer.	Removal/Termination	Declined	04/09/18	04/09/18
A senior Government employee's laptop was reported recovered by the Transportation Security Administration at an airport.	Other	No referral made	N/A	N/A
A senior Government employee was reported to have been arrested for driving under the influence.	Oral/Written counseling	No referral made	N/A	N/A

²⁵ 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.

²⁶ 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. 5 U.S.C. app § 5(f)(7).

Detailed Description of the Facts and Circumstances of the Investigation:	Disposition:	Criminal Status:	Date Referred:	If Declined, Date of Declination:
A senior Government employee was alleged to have sexually harassed another IRS employee.	Resigned before adjudication	No referral made	N/A	N/A
A senior Government employee was alleged to have intimidated and harassed a taxpayer.	Clearance letter	No referral made	N/A	N/A
A senior Government employee was alleged to have failed to properly secure his/her IRS issued laptop, associated passwords, IRS issued Blackberry, IRS issued pocket commission, and documents containing PII.	Admonished/reprimanded	No referral made	N/A	N/A
A senior Government employee was alleged to have improperly handled a taxpayer's identity theft claim.	Closed without action letter	No referral made	N/A	N/A
A senior Government employee was alleged to have been instrumental in a decision to falsify error rates found within notice review results requested by and delivered to TIGTA Office of Audit.	Clearance letter	No referral made	N/A	N/A
A senior Government employee was alleged to have been removed from a flight after the pilot became aware that the employee temporarily left his/her IRS issued firearm unattended in a carry-on bag.	Separated during investigation	No referral made	N/A	N/A
A senior Government employee was alleged to have targeted tax exempt Islamic entities.	Clearance letter	No referral made	N/A	N/A
A senior Government employee was alleged to have retaliated against another IRS employee.	Clearance letter	No referral made	N/A	N/A
A senior Government employee was alleged to have traveled and teleworked excessively.	Clearance letter	No referral made	N/A	N/A

Inspections and Evaluations Statistical Reports

Evaluation Reports With Significant Unimplemented Corrective Actions²⁷

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 Department of the Treasury's Joint Audit Management Enterprise System (JAMES).

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2018-IE-R002	February 2018	03/15/2020	<p>Additional Actions Are Needed to Make the Worker Misclassification Initiative With the Department of Labor a Success</p> <p><u>F-1, R-1, P-2:</u> Subject to the decision to continue the Memorandum of Understanding (MOU), IRS will 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.</p>
2018-IE-R005	August 2018	02/15/2020	<p>Controls Over Pocket Commissions Must Be Improved</p> <p><u>F-1, R-1, P-5:</u> The Chief, Facilities Management and Security Services (FMSS), will certify the commission inventory in Velocity.</p>
2018-IE-R005	August 2018	02/15/2020	<p>Controls Over Pocket Commissions Must Be Improved</p> <p><u>F-1, R-2, P-5:</u> The Chief, FMSS, will ensure that those previously unrecorded commissions are properly recorded in Velocity and are up-to-date (<i>i.e.</i>, revoking legacy commissions for employees who no longer need them and replacing non-expiring legacy commissions with serialized commissions with printed and tracked expiration dates for those employees whose position requires a pocket commission).</p>
2018-IE-R005	August 2018	05/15/2020	<p>Controls Over Pocket Commissions Must Be Improved</p> <p><u>F-1, R-3, P-2:</u> The Chief, FMSS, will revise and update policy in Internal Revenue Manual (IRM) 10.2.6, Non-Enforcement Pocket Commissions, to reinstate an annual reconciliation of the issued commissions to ensure that Velocity records remain complete and accurate.</p>
2018-IE-R005	August 2018	02/15/2020	<p>Controls Over Pocket Commissions Must Be Improved</p> <p><u>F-2, R-3, P-3:</u> The Chief, FMSS, will ensure that the program report is complete for all serialized commission records in Velocity.</p>

²⁷ The Office of Inspections and Evaluations has previously designated one report with unimplemented recommendations as "Sensitive But Unclassified (SBU)." The SBU report concerns the 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 the report.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2018-IE-R007	September 2018	10/15/2020	<p>Improved Communication and Outreach With Federal Agencies Could Reduce the Number of Invalid Retirement Benefit Statements Filed Each Year</p> <p><u>F-1, R-1, P-1:</u> Tax Exempt and Government Entities (TE/GE) will ensure that Notices 1313 (renamed to Notice 972F in 2019) are sent to all applicable agencies, regardless of threshold numbers of documents, when the agency issues a benefit statement with a missing or inaccurate Social Security Number (SSN).</p>
2019-IE-R002	November 2018	10/15/2019	<p>Although Virtual Face-to-Face Service Shows Promise, Few Taxpayers Use It</p> <p><u>F-1, R-1, P-1:</u> Recognizing that the Virtual Service Delivery (VSD) technology meets unique needs and objectives of the organizations that use it and the populations they serve; both the Taxpayer Advocate Service (TAS) and the Wage and Investment Division will develop a vision and specific goals for their respective VSD programs. Both plans will include defining the criteria against which performance will be measured and developing those measures to monitor and evaluate the effectiveness of the programs.</p>
2019-IE-R002	November 2018	10/15/2019	<p>Although Virtual Face-to-Face Service Shows Promise, Few Taxpayers Use It</p> <p><u>F-2, R-2, P-1:</u> The TAS will conduct public awareness activities aimed at increasing taxpayers' knowledge and awareness of its VSD program. The Field Assistance function will work with their partners, considering resource impact to their partners, to explore options for increasing public awareness of VSD services.</p>



Appendix I

Statistical Reports – Other

Reports With Significant Unimplemented Corrective Actions

The Inspector General Act, as amended, 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 JAMES.^{28,29}

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2007-10-068	May 2007	12/15/19	INEFFICIENCIES IN PROCESSING OPERATIONS ASSISTANCE REQUESTS CAUSED TAXPAYERS UNNECESSARY DELAYS F-3, R-1: Revise Form 12412, <i>Operations Assistance Request</i> , 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	09/30/20	THE OFFICE OF RESEARCH, ANALYSIS, AND STATISTICS NEEDS TO ADDRESS COMPUTER SECURITY WEAKNESSES F-1, R-5: Ensure that audit and accountability controls are sufficient by requiring audit logs to be maintained a minimum of six years and to be periodically reviewed by the security officer.
2011-20-111	September 2011	10/15/19 10/15/19	CONTINUED CENTRALIZATION OF THE WINDOWS ENVIRONMENT WOULD IMPROVE ADMINISTRATION AND SECURITY EFFICIENCIES F-2, R-1: Ensure that standards and processes are developed and implemented enterprise-wide to prevent servers and workstations from being connected to the network without the proper authorization and required compliance documentation. F-2, R-2: Ensure that scanning tools, such as the <i>Business DNA</i> software, are utilized to locate unauthorized servers, workstations, and domains on the IRS network, and adequate procedures are developed and implemented to ensure they are removed.
2012-20-112	September 2012	10/15/19	AN ENTERPRISE APPROACH IS NEEDED TO ADDRESS THE SECURITY RISK OF UNPATCHED COMPUTERS F-1, R-1: Ensure that the IRS completes the deployment of an automated asset discovery tool (or tools if needed) and builds an accurate and complete inventory of Information Technology assets (including hardware and software) that reside on the IRS network.

²⁸ This summary data does not include reports that are specifically prohibited from disclosure by any provision of law, such as 26 U.S.C. § 6103, protecting tax returns and return information, or that are specifically required by Executive Order to be protected from disclosure in the interest of national defense or national security or in the conduct of foreign affairs.

²⁹ The Office of Audit has previously designated two reports with unimplemented recommendations as “Sensitive But Unclassified (SBU).” These SBU reports include subject matter that might create a risk of circumvention of the law if publicly released. There are no potential cost savings associated with any unimplemented recommendations from these reports.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2012-20-122	September 2012	04/15/21	CUSTOMER ACCOUNT DATA ENGINE 2 (CADE 2): SYSTEM REQUIREMENTS AND TESTING PROCESSES NEED IMPROVEMENTS F-3, R-2: Ensure all database issues identified are resolved or an action plan is developed with specific corrective actions and time periods.
2014-10-033	June 2014	11/15/19	THE TAXPAYER ADVOCATE SERVICE CAN IMPROVE THE PROCESSING OF SYSTEMIC BURDEN CASES F-1, R-3: Review the results of sample findings and incorporate lessons learned into future training.
2014-40-084	September 2014	12/15/20	A SERVICE-WIDE STRATEGY IS NEEDED TO INCREASE BUSINESS TAX RETURN ELECTRONIC FILING F-2, R-1: Develop a less burdensome electronic signature process for businesses e-filing employment tax returns using the Modernized e-File system.
2014-23-072	September 2014	04/15/21	AFFORDABLE CARE ACT: IMPROVEMENTS ARE NEEDED TO STRENGTHEN SECURITY AND TESTING CONTROLS FOR THE AFFORDABLE CARE ACT INFORMATION RETURNS PROJECT F-1, R-1: Ensure that processes and procedures are developed to provide direction on how to review and mitigate weaknesses.
2016-40-028	March 2016	On Hold ³⁰ On Hold On Hold	REVISING TAX DEBT IDENTIFICATION PROGRAMMING AND CORRECTING PROCEDURAL ERRORS COULD IMPROVE THE TAX REFUND OFFSET PROGRAM F-1, R-1: Revise identification processes to include sole proprietor information from Form SS-4, <i>Application for Employer Identification Number</i> , to identify individual tax refunds to offset to business tax debt. F-2, R-4: Revise computer programming to ensure that credit elects are offset to any associated tax debt on the Non-Master File. F-3, R-1: Revise computer programming to use the Limited Liability Companies (LLC) indicator on the business tax account to ensure that individual tax refunds are not offset to the associated LLC's business tax debt.
2016-20-075	September 2016	10/15/19 10/15/19	INFORMATION TECHNOLOGY: SHAREPOINT CONTROLS NEED IMPROVEMENT TO MITIGATE RISKS AND TO ENSURE THAT POSSIBLE DUPLICATE COSTS ARE AVOIDED F-1, R-1: Ensure that an automated tool is identified, deployed, and routinely executed to identify SharePoint sites containing personally identifiable information (PII) and Sensitive but Unclassified (SBU) data. F-1, R-2: Ensure that SharePoint site collections containing PII and SBU data have approved Privacy and Civil Liberties Impact Assessment.
2017-30-010	October 2016	10/15/20	EMPLOYEES SOMETIMES DID NOT ADHERE TO E-MAIL POLICIES WHICH INCREASED THE RISK OF IMPROPER DISCLOSURE OF TAXPAYER INFORMATION F-3, R-1: Update the Enterprise Electronic Fax (EEFax) system to allow encrypted messages to be sent to the EEFax system server.

³⁰ Recommendations designated as "On Hold" were agreed to by the IRS, but action was deferred pending the availability of funds.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2017-40-037	May 2017	On Hold On Hold	IMPROVEMENTS ARE NEEDED TO ENSURE THAT TAX ACCOUNTS ON THE AUTOMATED NON-MASTER FILE ARE ACCURATELY PROCESSED F-1, R-1: Correct Automated Non-Master File (ANMF) programming to compute and assess the Failure to File penalty on Form 1040NR, <i>U.S. Nonresident Alien Income Tax Return</i> , accounts in which the Taxpayer Identification Number (TIN) is an Employer Identification Number (EIN). F-1, R-2: Correct ANMF programming to use the correct date when computing the Failure to File 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	07/15/20	INFORMATION TECHNOLOGY: IMPROVEMENTS ARE NEEDED IN ENTERPRISE-WIDE DISASTER RECOVERY PLANNING AND TESTING F-2, R-1: Reach consensus regarding the maximum tolerable downtime or recovery time objective for each mission essential function.
2017-40-038	July 2017	On Hold	CASE SELECTION PROCESSES RESULT IN BILLIONS OF DOLLARS IN POTENTIAL EMPLOYER UNDERREPORTED TAX NOT BEING ADDRESSED F-3, R-1: Establish a systemic process to match data fields to perfect unpostable Forms W-3, <i>Transmittal of Wage and Tax Statements</i> .
2017-30-048	August 2017	On Hold	ADDITIONAL CONTROLS ARE NEEDED TO HELP ENSURE THAT NONRESIDENT ALIEN INDIVIDUAL PROPERTY OWNERS COMPLY WITH TAX LAWS 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.
2017-40-085	September 2017	On Hold	FURTHER ACTIONS ARE NEEDED TO REDUCE THE RISK OF EMPLOYMENT TAX FRAUD TO BUSINESSES THAT USE THE SERVICES OF PROFESSIONAL EMPLOYER ORGANIZATIONS 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	09/15/20	THE INTERNAL REVENUE SERVICE IS NOT IN COMPLIANCE WITH FEDERAL REQUIREMENTS FOR SOFTWARE ASSET MANAGEMENT F-1, R-1: Establish executive governance for Software Asset Management within the IRS which acts as a centralized group to ensure that effective and knowledgeable decisions are being made timely by authorized personnel.
2017-30-084	September 2017	01/15/20	IMPROVEMENT IS NEEDED IN COMPLIANCE EFFORTS TO IDENTIFY UNSUPPORTED CLAIMS FOR FOREIGN TAX CREDITS 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.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-40-010	January 2018	On Hold On Hold On Hold 04/15/20 04/15/20 02/15/20	PROCESSES NEED TO BE IMPROVED TO IDENTIFY INCOMPLETE AND FRAUDULENT APPLICATIONS FOR INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS F-3, R-1: Modify the Real-Time System (RTS) consistency and validity checks to identify all duplicate uses of supporting documents. F-3, R-2: Ensure that programming changes are made to require mandatory review when the RTS alerts tax examiners that an applicant is using duplicate supporting documents as has previously been used to obtain an Individual Taxpayer Identification Number (ITIN). 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). F-3, R-5: Review the 44,532 ITINs TIGTA identified 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. 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 and take necessary action to change the ITINs to invalid. F-5, R-3: Prior to acceptance into the Certified Acceptance Agent (CAA) program, ensure that the CAA 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	04/15/20	SOME LEGAL REQUIREMENTS TO DEACTIVATE INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS HAVE NOT BEEN MET F-2, R-2: Deactivate the 89,105 ITINs TIGTA identified that should have been deactivated.
2018-40-012	January 2018	On Hold	RESULTS OF THE 2017 FILING SEASON F-5, R-1: Modify Form 2441, <i>Child and Dependent Care Expenses</i> , 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.
2018-40-013	February 2018	On Hold On Hold On Hold On Hold	ACTIONS ARE NEEDED TO REDUCE THE RISK OF FRAUDULENT USE OR EMPLOYER IDENTIFICATION NUMBERS AND TO IMPROVE THE EFFECTIVENESS OF THE APPLICATION PROCESS 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. 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. F-3, R-2: Revise internal procedures, application instructions, etc., to require that estate and trust applicants applying on paper provide a responsible party. F-3, R-5: Develop programming to reject estate applications if the decedent TIN is not that of a deceased individual.
2018-40-015	February 2018	On Hold	EMPLOYER NONCOMPLIANCE WITH WAGE REPORTING REQUIREMENTS SIGNIFICANTLY REDUCES THE ABILITY TO VERIFY REFUNDABLE TAX CREDIT CLAIMS BEFORE REFUNDS ARE PAID F-3, R-1: Correct programming errors that resulted in the incorrect calculation of ITIN issuance dates and ensure that the RTS and the National Account Profile are updated with the correct issuance date.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-43-022	March 2018	02/15/20	<p>AFFORDABLE CARE ACT: PROCESSES TO IDENTIFY EMPLOYEES SUBJECT TO THE EMPLOYER SHARED RESPONSIBILITY PAYMENT NEED IMPROVEMENT</p> <p><u>F-3, R-1</u>: Develop a Servicewide TIN validation strategy to reduce the number of TIN validation systems and programs to streamline and consolidate TIN validation efforts.</p>
2018-40-031	April 2018	On Hold	<p>PROACTIVE PROCESSES TO IDENTIFY AND MITIGATE POTENTIAL MISUSE OF ELECTRONIC PAYMENT SYSTEMS ARE NEEDED</p> <p><u>F-1, R-1</u>: Ensure that expanded authentication requirements are implemented without further delays to reduce the risk of misuse of the system.</p>
2018-20-029	May 2018	03/15/20	<p>SECURITY OVER HIGH VALUE ASSETS SHOULD BE STRENGTHENED</p> <p><u>F-1, R-1</u>: Implement the Office of Management and Budget Cybersecurity Strategy and Implementation Plan actions to identify and document current system hardware components for all IRS High Value Assets.</p>
2018-40-035	May 2018	11/15/19 11/15/19 11/15/19	<p>PROGRAMMING ERRORS AND DEFICIENCIES IN TAX EXAMINER SCREENING RESULTED IN SOME HEALTH COVERAGE TAX CREDIT CLAIMS BEING ERRONEOUSLY PROCESSED</p> <p><u>F-1, R-2</u>: Review the 2,222 tax returns that TIGTA identified (for which tax examiners erroneously disallowed the claim without first corresponding with the taxpayer to obtain missing eligibility or payment documentation) to ensure that taxpayers received the Health Coverage Tax Credits (HCTC) to which they were entitled and that erroneously issued HCTCs are recovered.</p> <p><u>F-1, R-6</u>: Review the 22 tax returns that TIGTA identified for which the taxpayer incorrectly used employer-sponsored health insurance premiums, reported on Form W-2, <i>Wage and Tax Statement</i>, to support an HCTC claim. Identify erroneously issued HCTCs and take actions to recover the credit.</p> <p><u>F-2, R-4</u>: Implement Error Resolution Unit screening procedures to identify individuals who filed a Form W-2, indicating that they obtained a new job.</p>
2018-20-034	June 2018	On Hold	<p>ACTIVE DIRECTORY OVERSIGHT NEEDS IMPROVEMENT AND CRIMINAL INVESTIGATION COMPUTER ROOMS LACK MINIMUM SECURITY CONTROLS</p> <p><u>F-2, R-1</u>: Complete a cost analysis to: 1) determine the efficacy of relocating CI assets in each of the field offices to existing IRS computer rooms versus upgrading the Criminal Investigation computer rooms to ensure that assets are protected in accordance with Federal and IRM security requirements and 2) implement the most cost effective solution.</p>
2018-30-040	July 2018	12/15/19	<p>DESPITE SPENDING NEARLY \$380 MILLION, THE INTERNAL REVENUE SERVICE IS STILL NOT PREPARED TO ENFORCE COMPLIANCE WITH THE FOREIGN ACCOUNT TAX COMPLIANCE ACT</p> <p><u>F-1, R-1</u>: Establish follow-up procedures and initiate action to address error notices related to file submissions rejected by the International Compliance Management Model to ensure that non-Intergovernmental Agreement (IGA) Foreign Financial Institutions (FFI) and Model 2 IGA FFIs submit Foreign Account Tax Compliance Act reports properly and to address unresolved record level errors to ensure that the FFIs correctly provide data for mandatory fields.</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-20-041	July 2018	04/15/20 02/15/20 02/15/20 02/15/20 02/15/20	<p>MANAGEMENT CONTROLS SHOULD BE STRENGTHENED TO IMPROVE HARDWARE ASSET INVENTORY RELIABILITY</p> <p><u>F-1, R-1</u>: Review and update the existing Hardware Asset Management Inventory Certification Plan and reconciliation process to improve compliance, accountability, and participation of all asset inventory owners and stakeholders and to improve the accuracy of information of key Knowledge Incident/Problem Service Asset Management-Asset Manager (KISAM-AM) module fields during the annual certification process.</p> <p><u>F-1, R-3</u>: Direct responsible personnel to research and update the KISAM-AM module records for all in-use assets to ensure that all identified blank User Name and/or Contact Name fields are populated accordingly.</p> <p><u>F-1, R-4</u>: Improve the accuracy of the Location field in the KISAM-AM module for shared assets by capturing the specificity of the location for future hardware asset inventory certifications and transactions.</p> <p><u>F-2, R-1</u>: Identify high-risk hardware asset categories that may potentially contain PII, update guidance to further define that high-risk assets not verified for one inventory cycle be immediately categorized as missing in the KISAM-AM module, and specify a time frame to complete the 10 research steps for locating missing assets.</p> <p><u>F-2, R-2</u>: Direct responsible personnel to prioritize locating high-risk missing assets that may potentially contain PII when conducting the 10 research steps and immediately report assets determined as lost to the IRS's Computer Security Incident Response Center and TIGTA's Office of Investigations.</p>
2018-30-042	July 2018	10/15/20 10/15/19 10/15/20	<p>THE INTERNAL REVENUE SERVICE LACKS A COORDINATED STRATEGY TO ADDRESS UNREGULATED RETURN PREPARER MISCONDUCT</p> <p><u>F-1, R-1</u>: Develop a preparer misconduct strategy that encourages programs with the authority to address preparer misconduct to coordinate with one another to establish program goals and track progress towards those goals.</p> <p><u>F-1, R-2</u>: Establish goals that support the Servicewide Return Preparer Strategy being developed by the Deputy Commissioner for Services and Enforcement and monitor progress towards those goals.</p> <p><u>F-2, R-2</u>: Consider expanding use of the Preparer Risk Identification Selection Model feature of the Return Preparer Database to assess the Lead Development Centers and the Examination function, and the identification and development of the Program Action Cases.</p>
2018-20-039	July 2018	10/15/19	<p>PRIVATE COLLECTION AGENCY SECURITY OVER TAXPAYER DATA NEEDS IMPROVEMENT</p> <p><u>F-2, R-3</u>: Provide oversight to ensure that stronger security controls are included in the annual assessments such as the Lockbox Security Guidelines, including a separate secure room for mail processing and securing payments, and enhancing security camera coverage to include record times of all sensitive areas where taxpayer data are present.</p>
2018-40-061	August 2018	On Hold	<p>ADDITIONAL ACTIONS CAN BE TAKEN TO FURTHER REDUCE REFUND LOSSES ASSOCIATED WITH BUSINESS IDENTITY THEFT</p> <p><u>F-1, R-2</u>: Expand the use of business identity theft filters to include employment tax returns (e.g., Form 940, <i>Employer's Annual Federal Unemployment (FUTA) Tax Return</i>; Form 941, <i>Employer's Quarterly Federal Tax Return</i>; Form 943, <i>Employer's Annual Federal Tax Return for Agricultural Employees</i>; and Form 944, <i>Employer's Annual Federal Tax Return</i>).</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-40-062	August 2018	12/15/19	<p>IMPROVED PROCEDURES ARE NEEDED TO PREVENT THE FRAUDULENT USE OF THIRD-PARTY AUTHORIZATION FORMS TO OBTAIN TAXPAYER INFORMATION</p> <p>F-4, R-2: Correspond with representatives and designees assigned multiple Centralized Authorization File (CAF) numbers to inform them that they are permitted to have one CAF number per location. The correspondence should request a response from each representative and designee specifying the CAF number that the IRS should retain. Excess numbers should then be removed from the CAF.</p>
2018-30-070	September 2018	02/15/20	<p>FISCAL YEAR 2018 STATUTORY REVIEW OF RESTRICTIONS ON DIRECTLY CONTACTING TAXPAYERS</p> <p>F-1, R-2: Update guidance to employees that clarifies the applicability of I.R.C. §§ 7521(b)(2) and (c) and add I.R.C. § 6304(a)(2) related guidance and training to emphasize the importance of protecting taxpayers' right to representation when working with Appeals and that designates to whom group managers should report cases with potential violations.</p>
2018-30-073	September 2018	01/15/20 01/15/20	<p>IMPROVEMENTS ARE NEEDED TO ENSURE ADEQUATE CONSIDERATION OF THE PICKUP OF PRIOR AND/OR SUBSEQUENT RETURNS DURING FIELD EXAMINATIONS</p> <p>F-1, R-2: Provide additional training to field examiners on when to expand examinations into the prior and/or subsequent tax return years, including the use of split closing for cases nearing the statute of limitation or over-age cases and requesting statute extensions as needed. Potential Increased Revenue: \$246,214,311</p> <p>F-2, R-1: Provide additional training to field examiners and managers to ensure that the Lead Sheet 130 includes an adequate explanation for not expanding to prior and/or subsequent year returns.</p>
2018-20-063	September 2018	03/13/20 03/13/20 03/13/20	<p>IMPROVED CONTROLS ARE NEEDED TO ENSURE THAT CORRECTIVE ACTIONS FOR REPORTED INFORMATION TECHNOLOGY WEAKNESSES ARE DOCUMENTED AND FULLY IMPLEMENTED PRIOR TO CLOSURE</p> <p>F-1, R-1: Ensure that complete descriptions of the specific actions taken to close proposed corrective actions are documented in Form 13872, <i>Planned Corrective Action Status Update</i>.</p> <p>F-1, R-2: Ensure that sufficient supporting documentation is uploaded to the JAMES to support proposed corrective action closure.</p> <p>F-1, R-3: Ensure that the IRM and instructions for Form 13872 are updated so that both the manager responsible for implementing the proposed corrective action and the executive responsible for the proposed corrective action are required to approve Form 13872 supporting the proposed corrective action's closure.</p>
2018-20-066	September 2018	03/13/20 12/13/19 03/13/20	<p>CONTROLS CONTINUE TO NEED IMPROVEMENT TO ENSURE THAT ALL PLANNED CORRECTIVE ACTIONS FOR SECURITY WEAKNESSES ARE FULLY IMPLEMENTED AND SUPPORTED</p> <p>F-1, R-3: Update the IRM to broaden the Audit Coordination and Outreach, Assessment and Reporting offices auditing to include reviewing management's corrective actions to ensure that the proposed corrective actions are fully and appropriately implemented.</p> <p>F-2, R-2: Ensure that Internal Controls organization reviewers improve the development of their skillsets to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. Part of the development could include attending audit evidence training courses offered by the Federal Government and the private sector.</p> <p>F-2, R-3: Update the retention period in the IRM for maintaining documentation with the JAMES Audit Coordinators to align with the Department of the Treasury's retention period for maintaining supporting documentation in the JAMES.</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-30-072	September 2018	12/15/19 10/15/19 On Hold	<p>IMPROVEMENTS ARE NEEDED IN THE WITHHOLDING COMPLIANCE PROGRAM</p> <p><u>F-2, R-1:</u> Identify noncompliant employers and determine the appropriate actions to enforce I.R.C. § 3403 by holding employers liable that fail to withhold Federal income tax from the employees as instructed in the lock-in letters.</p> <p><u>F-2, R-2:</u> Work with Federal Government agencies that are not complying with the lock-in letters to advise them of the requirement to change withholding based on the letters they receive.</p> <p><u>F-3, R-2:</u> Analyze the current selection criteria used by the Withholding Compliance System to determine if the taxpayers identified for systemic lock-in letter issuance are the best use of limited resources. This would include potentially identifying taxpayers with multiple years of under withholding and the percentage of inventory that includes nonfilers.</p>
2018-30-074	September 2018	01/15/20 01/15/20	<p>FORMS, INSTRUCTIONS, PUBLICATIONS, AND PROCEDURES NEED TO BE IMPROVED FOR SOME NONRESIDENT ALIENS ELIGIBLE FOR TREATY-BASED INCOME EXEMPTIONS</p> <p><u>F-1, R-1:</u> Consider updating the appropriate forms, instructions, and publications to clarify how nonresident aliens who do not file a Form 8233, <i>Exemption From Withholding on Compensation for Independence (and Certain Dependent) Personal Services of a Nonresident Alien</i>, with their employer are still able to claim the treaty exemption.</p> <p><u>F-1, R-2:</u> 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.</p>
2018-30-076	September 2018	12/15/19	<p>THE INTERNAL REVENUE SERVICE STILL DOES NOT MAKE EFFECTIVE USE OF CURRENCY TRANSACTION REPORTS</p> <p><u>F-1, R-1:</u> Establish formalized procedures for processing Bank Secrecy Act Program referrals and begin formally tracking the time required to send referrals to the Field Exam Support Team.</p>
2018-30-077	September 2018	12/15/19 10/15/19 10/15/19	<p>IMPROVEMENTS TO THE SS-8 PROGRAM ARE NEEDED TO HELP WORKERS AND IMPROVE EMPLOYMENT TAX COMPLIANCE</p> <p><u>F-1, R-1:</u> Create guidance and training for the responsible functions to ensure the accurate processing and determinations of worker classification requests, including gig economy worker classification requests.</p> <p><u>F-2, R-2:</u> Require employees to evaluate whether businesses are complying with determinations. Consider program changes and referrals to the Employment Tax Examination function as appropriate to increase business compliance with worker classification determinations.</p> <p><u>F-3, R-1:</u> Evaluate the process used in making worker classification determinations and opinions in the SS-8 Program and make necessary changes to improve processing.</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-30-081	September 2018	01/15/20 01/15/20 10/15/20 10/15/19	<p>BILLIONS IN TIP-RELATED TAX NONCOMPLIANCE ARE NOT FULLY ADDRESSED AND TIP AGREEMENTS ARE GENERALLY NOT ENFORCED</p> <p><u>F-1, R-1</u>: Use a risk-based approach to more effectively prioritize the use of Field Examination resources for the National Tip Reporting Compliance Program. The risk-based approach should prioritize higher risk work with the greatest impact to tip reporting compliance.</p> <p><u>F-1, R-3</u>: Use data analysis and sampling to monitor tip agreement compliance and identify taxpayers that need a compliance review.</p> <p><u>F-2, R-1</u>: Develop a risk-based case selection methodology using historical statistics and data analysis to identify the highest risk tip examination cases on an annual basis.</p> <p><u>F-4, R-2</u>: Update the IRM to provide more specific criteria and examples of when to revoke a tip agreement if an establishment is substantially noncompliant with the commitments of the agreement and to provide more specific criteria and examples on how to perform compliance reviews, including the Form 8027, <i>Employer's Annual Information Returns of Tip Income and Allocated Tips</i>, analysis of unreported tips. Provide employees training on the changes to the Manual.</p>
2019-10-002	October 2018	01/15/20 10/15/20	<p>TAXPAYERS GENERALLY COMPLY WITH ANNUAL CONTRIBUTION LIMITS FOR 401(K) PLANS; HOWEVER, ADDITIONAL EFFORTS COULD FURTHER IMPROVE COMPLIANCE</p> <p><u>F-1, R-1</u>: Identify and provide guidance to 401(k) plans that potentially allow taxpayers to exceed annual contribution limits.</p> <p><u>F-1, R-2</u>: Take actions to bring taxpayers who contribute more than the annual limit to multiple 401(k) plans into compliance with the law.</p>
2019-10-003	October 2018	02/15/20	<p>THE HUMAN CAPITAL OFFICE ADMINISTERED THE DRUG TESTING OF EMPLOYEES IN TESTING DESIGNATED POSITIONS IN ACCORDANCE WITH ESTABLISHED GUIDELINES</p> <p><u>F-1, R-2</u>: Complete union negotiations to have bargaining unit employees in Testing Designated Positions randomly tested for illegal drug use.</p>
2019-10-009	October 2018	06/15/20 06/15/20 06/15/20 01/15/20 01/15/20	<p>THE TAXPAYER ADVOCATE SERVICE CENTRALIZED CASE INTAKE PROGRAM NEEDS IMPROVEMENT TO PROVIDE BETTER CUSTOMER SERVICE</p> <p><u>F-1, R-1</u>: Develop and implement a staffing plan that will reduce the call wait times that taxpayers experience during peak call volume periods.</p> <p><u>F-1, R-2</u>: Develop and implement a process to prevent callers from being disconnected from the Centralized Case Intake (CCI) program at the end of the day.</p> <p><u>F-1, R-3</u>: Develop and implement a mandatory process whereby the Taxpayer Advocate Service (TAS): 1) records and summarizes specific reasons why calls received by intake advocates do not result in the creation of a TAS case, and 2) provides formal feedback to the Wage and Investment (W&I) Division on the frequency and reasons for inaccurate referrals made from the W&I Division to the CCI program.</p> <p><u>F-1, R-4</u>: Update IRM 13.3 and provide up-to-date guidance to W&I Division contact representatives who staff the National Taxpayer Advocate toll-free line pertaining to current procedures for the CCI program.</p> <p><u>F-1, R-6</u>: Develop and measure progress toward specific and quantifiable program goals for the CCI program that measure benefits to taxpayers, the TAS, and the IRS, such as increased customer satisfaction, reduced direct case time or other measures of program impact.</p>
2019-20-008	December 2018	03/15/21	<p>THE SOLARIS TO LINUX MIGRATION PROJECT WAS DELAYED AND NEEDS IMPROVED GOVERNANCE</p> <p><u>F-1, R-2</u>: Ensure that procurement of hardware, service, and support includes a well-developed plan, process for utilization, and reasonable timelines.</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2019-40-013	December 2018	On Hold	<p>RESULTS OF THE 2018 FILING SEASON</p> <p>F-3, R-1: Expand the Identity Protection Personal Identification Number (IP PIN) opt-in program to allow ITIN holders who are not automatically issued an IP PIN the option to obtain an IP PIN. The IRS should notify these individuals of the option to obtain an IP PIN and provide instructions on how to do so.</p>
2019-40-014	December 2018	11/15/20 11/15/20 02/15/20	<p>PROCESSES ARE NEEDED TO IDENTIFY SMALL BUSINESSES ERRONEOUSLY CLAIMING THE RESEARCH TAX CREDIT PAYROLL TAX OFFSET</p> <p>F-1, R-1: Review the 81 businesses that TIGTA identified that did not meet the eligibility requirements for claiming the Research Credit and recover any erroneously claimed Research Credits.</p> <p>F-1, R-2: Review the businesses that TIGTA identified and recover any erroneously claimed Research Credits.</p> <p>F-1, R-3: Ensure timely implementation and use of post-processing initiatives to identify businesses that do not meet eligibility or threshold requirements and erroneously claim the Research Credit.</p>
2019-30-018	December 2018	10/15/19 10/15/19	<p>FISCAL YEAR 2019 BIENNIAL INDEPENDENT ASSESSMENT OF PRIVATE COLLECTION AGENCY PERFORMANCE</p> <p>F-1, R-8: Include payment arrangements of less than 60 months in quality reviews to ensure that the new calculator is working properly.</p> <p>F-2, R-1: Revise the Policy and Procedure Guide for payment arrangement options to be consistent with IRS policy for taxpayers who owe less than \$50,000.</p>
2019-20-005	February 2019	12/15/19 12/15/19 11/15/19 12/15/19	<p>MANAGEMENT AND IMPLEMENTATION OF INFORMATION TECHNOLOGY SOFTWARE TOOLS NEEDS IMPROVEMENT</p> <p>F-2, R-1: Direct the Strategic Supplier Management (SSM) office to implement processes that will improve license utilization and enhance license compliance.</p> <p>F-2, R-2: Direct the SSM office on an annual basis to review software maintenance renewals to ensure that coverage is purchased only for the number of licenses that show measured usage over the prior contract period.</p> <p>F-2, R-4: Direct the SSM office to develop and implement controls that prevent system administrators from installing more licenses than were purchased under the contract.</p> <p>F-3, R-2: Formally document and implement policies and procedures for acquisitions that use software and service credit purchases and include these policies in official authorized documents.</p>
2019-30-016	February 2019	04/15/20 12/15/19 10/15/19	<p>EXPANSION OF THE GIG ECONOMY WARRANTS FOCUS ON IMPROVING SELF-EMPLOYMENT TAX COMPLIANCE</p> <p>F-1, R-1: Develop a strategic plan to address tax administration for the gig economy, including the assessment and collection of self-employment tax, and consider developing initiatives such as pilots or soft notice programs geared towards gig economy workers with repeated noncompliance.</p> <p>F-2, R-3: Consider programming changes in the Automated Underreporter system to automatically populate the self-employment tax window (including situations in which taxpayers have negative numbers on their return) for electronically filed returns as well as add additional prompts and reminders concerning Form 1040 line 21 and the need to fill out the income identity code.</p> <p>F-3, R-2: Work with the Treasury Office of Tax Policy to pursue regulatory or legislative change relating to the third-party reporting thresholds established in I.R.C. § 6050W.</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2019-10-020	February 2019	10/15/19	<p>INDEPENDENT ATTESTATION REVIEW OF THE INTERNAL REVENUE SERVICE'S FISCAL YEAR 2018 ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE</p> <p><u>F-1, R-1</u>: Analyze the causes of any significant variances between the narcotics program performance goals and actual accomplishments.</p>
2019-44-022	March 2019	03/15/20	<p>TAX CUTS AND JOBS ACT: IMPLEMENTATION OF THE QUALIFIED BUSINESS INCOME DEDUCTION</p> <p><u>F-1, R-3</u>: Ensure the timely implementation of the post-processing compliance plan to identify individuals that do not meet eligibility requirements and erroneously claim the Qualified Business Income Deduction.</p>
2019-40-026	March 2019	<p>02/15/20</p> <p>03/15/20</p> <p>02/15/20</p> <p>10/15/20</p> <p>10/15/20</p>	<p>MILLIONS OF DOLLARS IN POTENTIALLY ERRONEOUS EXCESS SOCIAL SECURITY TAX CREDIT CLAIMS ARE NOT ADDRESSED</p> <p><u>F-1, R-1</u>: Develop processes and procedures to ensure that tax examiners accurately review Excess Social Security Tax Credit claims.</p> <p><u>F-2, R-1</u>: Develop processes and procedures to ensure that the Social Security tax maximum withholding amounts are updated in systemic programs that select Excess Social Security Tax Credit claims for review.</p> <p><u>F-2, R-2</u>: Update systemic processes to ensure that the IRS does not unnecessarily select tax returns for manual review that report "agent for" in the employer name line, report Social Security tax withholding below the maximum withholding amount for each taxpayer, and/or are below the dollar tolerance used to select paper tax returns for manual review.</p> <p><u>F-3, R-1</u>: Establish a process to send and measure the success associated with soft notices that alert individuals to potential errors on their tax return related to Excess Social Security Tax Credit claims.</p> <p><u>F-3, R-2</u>: Evaluate current resources expended on the issuance of soft notices to ensure that notices are sent to those taxpayers with the highest tax assessment potential to maximize the use of limited resources.</p>

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:³¹	
Issue	Result for TIGTA
<p>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.</p> <p>Report restricted or significantly delayed access to information, including the justification of the establishment for such action.</p>	<p>As of September 30, 2019, there were no attempts to interfere with the independence of TIGTA or any instances of restricted or significantly delayed access to information.</p>
<p>Disputed Recommendations Provide information on significant management decisions in response to recommendations with which the Inspector General disagrees.</p>	<p>As of September 30, 2019, there were no instances in which significant recommendations were disputed.</p>
<p>Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	<p>As of September 30, 2019, there were no significant revised management decisions.</p>
<p>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.</p>	<p>As of September 30, 2019, there were no prior reports for which management's response was not received within 60 days of issuance.</p>
<p>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.</p>	<p>As of September 30, 2019, there were no reports that had been closed and were not disclosed to the public.</p>
<p>Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 322 proposed regulations and legislative requests during this reporting period.</p>

³¹ Results listed are for this reporting period only.

Appendix II

Audit Products

April 1, 2019 – September 30, 2019

Audit Products		
Reference Number	Report Title	Outcome Measure(s)
April 2019		
2019-44-030	Interim Results of the 2019 Filing Season	
2019-10-021	Improvements Are Needed to Ensure That Employee Tax Compliance Cases Are Adjudicated Consistently	Reliability of Information: 123 RRA 98 §1203 Automated Labor and Employee Relations Tracking System Cases impacted
2019-44-027	Tax Cuts and Jobs Act: Assessment of Implementation Efforts	
2019-20-017	Electronic Authentication Security Controls Have Improved, but Continued Progress Is Needed to Ensure the Protection of Public-Facing Applications	
2019-30-024	Improvements in Return Scoring and Resource Allocation at the Strategic Level Could Enhance Examination Productivity	Increased Revenue: \$262,531,864 impacting 17,595 taxpayer accounts
May 2019		
2019-40-029	The Internal Revenue Service Did Not Follow Congressional Directives Before Closing Taxpayer Assistance Centers; a Data-Driven Model Should Be Used to Optimize Locations	
2019-40-039	Some Refundable Credits Are Still Not Classified and Reported Correctly as a High Risk for Improper Payment by the Internal Revenue Service	
2019-14-025	Status of the Office of Chief Counsel's Issuance of Tax Cuts and Jobs Act Guidance	
2019-40-028	Billions of Dollars in Non-Payroll Tax Withholding Discrepancies Are Not Being Addressed	Increased Revenue: \$1,500,000,000 impacting 11,194 taxpayer accounts
2019-34-033	Implementation of the Tax Cuts and Jobs Act Deemed Repatriation Tax Presented Significant Challenges	Taxpayer Burden: \$2,838,004,061 overpaid liabilities impacting 115 taxpayer accounts; Reliability of Information: \$1,185,337,299 in understated revenue
2019-40-040	Improvements Are Needed to Correct Continued Deficiencies in the Processing of Taxpayer Referrals of Suspected Tax Fraud	
2019-30-036	Few Accuracy-Related Penalties Are Proposed in Large Business Examinations, and They Are Generally Not Sustained on Appeal	
June 2019		
2019-14-032	Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts for the Excise Tax on Excess Compensation Paid by Tax-Exempt Organizations	
2019-10-015	International Travel Claims With Unallowable or Unsupported Expenses Were Certified for Payment by Approving Officials	Questioned Costs: \$77,158 of approved travel claims with unallowable expenses; Reliability of Information: One instance of underreporting premium class travel; Protection of Resources: \$2,300,000
2019-40-041	Telephone Performance Measures Do Not Provide an Accurate Assessment of Service to Taxpayers	
2019-20-031	Software Version Control Management Needs Improvement	
2019-24-035	The Internal Revenue Service Completed Extensive Programming and Systems Changes in a Compressed Timeframe for the 2019 Filing Season	
2019-20-038	Controls Over Information Technology Procurements Need Improvement	Inefficient Use of Resources: \$122,803; Reliability of Information: 91 contract files impacted

2019-10-037	Video Review Processes Have Been Implemented; However, Those Processes Can Be Strengthened	
July 2019		
2019-40-043	Unmet Needs for Information Technology Support Result in Inefficiencies and Higher Tax Administration Costs	
2019-10-053	Review of the Internal Revenue Service's Purchase Card Violations Report	
2019-30-045	Fiscal Year 2019 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations	
2019-10-051	Status of the Implementation of the Federal Financial Management Improvement Act	
2019-40-042	Actions Have Not Been Taken to Improve Amended Tax Return Review Procedures to Reduce Erroneous and Fraudulent Refunds	Revenue Protection: \$1,816,264,677 impacting 352,152 taxpayer accounts; Funds Put to Better Use: \$79,413,315
August 2019		
2019-30-054	Fiscal Year 2019 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute	
2019-40-048	Additional Actions Are Needed to Reduce Alimony Reporting Discrepancies on Income Tax Returns	Increased Revenue: \$3,540,839 impacting 2,102 taxpayer accounts; Revenue Protection: \$1,091,755,605 impacting 153,964 taxpayer accounts
2019-20-052	Information Technology Risks Are Identified, Assessed, and Reported, but Mitigation Documentation and Oversight Need Improvement	Reliability of Information: 33 risk records impacted
2019-20-049	The First Phase of the Data Loss Prevention Solution Is Working As Intended, but the Remaining Phases Continue to Experience Delays	Inefficient Use of Resources: \$1,202,704
2019-30-047	Criminal Investigation Should Increase Its Role in Enforcement Efforts Against Identity Theft	Reliability of Information: 99,356 taxpayer accounts impacted
2019-40-044	Billions of Dollars of Potentially Erroneous Carryforward Claims Are Still Not Being Addressed	Revenue Protection: \$5,095,221,131 impacting 18,474 taxpayer accounts
September 2019		
2019-30-059	Fiscal Year 2019 Statutory Review of Disclosure of Collection Activities on Joint Returns	
2019-30-056	Fiscal Year 2019 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results	
2019-30-050	A Strategy Is Needed to Assess the Compliance of Corporate Mergers and Acquisitions With Federal Tax Requirements	
2019-10-057	Fiscal Year 2019 Statutory Review of Denials of Freedom of Information Act and Internal Revenue Code § 6103 Requests	Taxpayer Rights and Entitlements: 282 Freedom of Information Act Requests impacted
2019-10-058	Review of the Office of Appeals Collection Due Process Program	Increased Revenue: 588 tax accounts impacted; Taxpayer Rights and Entitlements: 3,963 tax accounts impacted
2019-30-063	Trends in Compliance Activities Through Fiscal Year 2018	
2019-40-079	Excise Tax Registrations Are Not Always Timely or Accurately Processed	Taxpayer Burden: 424 Form 637 Applications impacted; Taxpayer Rights and Entitlements: Six Excise Tax registrants impacted
2019-30-067	The Internal Revenue Service Should Revise the Approach Used to Identify Foreign Corporations That Do Not File Required U.S. Income Tax Returns	
2019-40-074	Additional Actions Are Needed to Further Reduce Undeliverable Mail	Inefficient Use of Resources: \$1,407,486
2019-20-060	E-Mail Records Management Is Generally in Compliance With the Managing Government Records Directive	
2019-20-046	The Bring Your Own Device Program's Security Controls Need Improvement	
2019-20-055	Controls Should Be Strengthened to Ensure Timely Resolution of Information Technology Incident Tickets	
2019-30-069	Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations	Increased Revenue: \$16,704,598,855 impacting 86,554 taxpayer accounts
2019-34-064	Tax Cuts and Jobs Act: Assessment of the Implementation of the International Provisions	
2019-30-077	Fiscal Year 2019 Statutory Review of Compliance With Notice of Federal Tax Lien Filing Due Process Procedures	

2019-30-076	Fiscal Year 2019 Statutory Review of Restrictions on Directly Contacting Taxpayers	
2019-30-070	Fiscal Year 2019 Statutory Review of Compliance With Legal Guidelines When Issuing Levies	Taxpayer Rights and Entitlements: 1,296 taxpayer accounts impacted
2019-30-068	Implementation of the Passport Provisions of the FAST Act Was Generally Successful, and the Internal Revenue Service Is Working on Objective Criteria for Passport Revocations	Taxpayer Rights and Entitlements: 19 taxpayer accounts impacted
2019-30-075	Fiscal Year 2019 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property	Taxpayer Rights and Entitlements: Three taxpayer accounts impacted ³²
2019-20-062	Some Components of the Privacy Program Are Effective; However, Improvements Are Needed	
2019-20-082	Fiscal Year 2019 Evaluation of the Internal Revenue Service's Cybersecurity Program Against the Federal Information Security Modernization Act	
2019-20-061	Firewall Administration Needs Improvement ³³	
2019-10-080	Processes Do Not Adequately Reduce the Risk That Outside Employment Activities Will Conflict With Employees' Official Duties	Reliability of Information: 9,063 outside employment requests impacted
2019-10-081	Processes and Procedures for Rehiring Employees With Prior Conduct or Performance Issues Were Implemented but Not Always Followed	Reliability of Information: Four IRS employees in which the conduct and performance matrices were not applied correctly
2019-30-073	Fiscal Year 2019 Statutory Review of Potential Fair Tax Collection Practices Violations	Reliability of Information: 76 IRS cases; Taxpayer Rights impacted and Entitlements: Eight IRS cases impacted; Taxpayer Burden: One IRS case impacted; Taxpayer Privacy and Security: One IRS case impacted
2019-40-071	Strengthened Validation Controls Are Needed to Protect Against Unauthorized Filing and Input of Fraudulent Information Returns	
2019-30-066	Initial Compliance Results Warrant a More Data-Driven Approach to Campaign Issue Selection	
2019-30-078	The Use of Schedule K-1 Data to Address Taxpayer Noncompliance Can Be Improved	
2019-20-083	Annual Assessment of the Internal Revenue Service's Information Technology Program for Fiscal Year 2019	
2019-30-072	Millions of Dollars in Potentially Erroneous Qualified Plug-In Electric Drive Motor Vehicle Credits Continue to Be Claimed Using Ineligible Vehicles	Increased Revenue: \$82,761,403 impacting 18,087 taxpayer accounts

³² Some taxpayer accounts are redacted because TIGTA has determined that it is tax return information related to taxpayer privacy.

³³ There is information that is redacted because TIGTA has determined that it is law enforcement information related to the physical safety of the IRS Centers.

Appendix III

TIGTA's Statutory Reporting Requirements

The following table reflects the FY 2019 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)	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. 2019-30-056; Sept. 2019 From a sample, TIGTA identified instances of noncompliance with each of the following subsections of RRA 98: 27 instances of § 1204(b) in which 20 IRS managers failed to either maintain the retention standard documentation or ensure that it was appropriately signed and dated; and 32 instances of § 1204(c) in which 11 IRS managers did not properly certify in writing to the IRS Commissioner whether a record of tax enforcement result 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. 2019-30-076; Sept. 2019 TIGTA selected statistically valid samples of case histories to review in the Taxpayer Advocate Service (TAS) and the Tax Exempt and Government and Entities (TE/GE) Division, respectively, and identified six instances out of 118 cases reviewed in TAS and five instances out of 96 cases reviewed in the TE/GE Division in which their respective employees potentially violated taxpayer rights per I.R.C. § 7521(c) and bypassed authorized representatives, without obtaining appropriate authorization.
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. 2019-30-077; Sept. 2019 Tests of a statistically valid sample of 116 Notice of Federal Tax Liens (NFTLs) determined 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 17 cases for which the address on the original lien notice and the address on the IRS computer system did not agree.
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 of particular issues or a particular period of time.	Ref. No. 2019-30-054; Aug. 2019 TIGTA's review of a statistically valid 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, 13 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.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Levies I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.	Ref. No. 2019-30-070; Sept. 2019 TIGTA's review of the IRS's Automated Levy Program showed that taxpayers' rights were not always protected. While some of the programs have different statutory requirements about when taxpayers must be notified of their rights, all taxpayers that are levied by the IRS must be notified of the Collection Due Process (CDP) rights. TIGTA determined that the IRS's controls in place for ensuring that CDP notices were issued timely did not always work.
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. 2019-10-058; Sept. 2019 The Office of Appeals properly informed taxpayers that CDP and Equivalent Hearings were conducted by an impartial hearing officer with no prior involvement with the tax or tax periods covered by the hearing. However, TIGTA identified some errors that were similar to errors identified in prior reports. Specifically, the Office of Appeals did not always classify taxpayer requests properly and, as a result, some taxpayers received the wrong type of hearing.
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. 2019-30-075; Sept. 2019 TIGTA reviewed a judgmental sample of 52 of the 260 seizures conducted from July 1, 2017, through June 30, 2018, to determine whether the IRS complied with legal and internal guidelines related to each seizure. TIGTA identified instances in which the IRS did not comply with a particular I.R.C. section, an internal procedure, or there was no guidance present. Errors identified were related to CDP rights, nonjudicial sale notices, and property valuations.
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. 2019-30-045; July 2019 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 54.7 million records in the Account Management Services system, TIGTA found instances in which six employees referred to taxpayers as Illegal Tax Protesters or similar designations. TIGTA's review of the Criminal Investigation Management Information System also identified the use of Illegal Tax Protester in three instances.
Disclosure of Collection Activity 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. 2019-30-059; Sept. 2019 TIGTA's review of computer system history files and employee interviews showed that employees were not always aware of the disclosure requirements for joint filer taxpayer contacts.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each <i>Semiannual Report to Congress</i> 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 46.
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 violation 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. 2019-30-037; Sept. 2019 TIGTA identified seven collection cases closed on the Automated Labor and Employee Relations Tracking System (ALERTS) database in FY 2018 that were incorrectly coded as non-Fair Tax Collection Practices (FTCP) by labor relations specialist. Additionally, TIGTA identified one FTCP violation and 235 potential Fair Debt Collection Practices Act (FDCPA) violations by private collection agency employees. A computer programming error caused 226 of the potential FDCPA violations.
Denials 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. 2019-10-057; Sept. 2019 TIGTA identified six (8 percent) of 80 sampled Freedom of Information Act information requests and one (1 percent) of 74 I.R.C. § 6103 (c) and (e) information requests for which taxpayers did not receive the information to which they were entitled because the IRS improperly withheld information from the requestors.
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.	<u>Security Reviews:</u> Ref. No. 2019-40-012; Dec. 2018 Ref. No. 2019-20-017; Apr. 2019 Ref. No. 2019-20-031; June 2019 Ref. No. 2019-20-049; Aug. 2019 Ref. No. 2019-20-046; Sept. 2019 Ref. No. 2019-20-061; Sept. 2019 Ref. No. 2019-20-062; Sept. 2019 Ref. No. 2019-40-071; Sept. 2019 Ref. No. 2019-20-082; Sept. 2019 Ref. No. 2019-20-083; Sept. 2019 <u>Information Technology Reviews:</u> Ref. No. 2019-20-008; Dec. 2018 Ref. No. 2019-20-005; Feb. 2019 Ref. No. 2019-24-035; June 2019 Ref. No. 2019-20-038; June 2019 Ref. No. 2019-40-043; July 2019 Ref. No. 2019-20-052; Aug. 2019 Ref. No. 2019-20-055; Sept. 2019 Ref. No. 2019-20-060; Sept. 2019

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Federal Financial Management Improvement Act of 1996 (FFMIA)</p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements or the establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Ref. No. 2019-10-051; July 2019</p> <p>During FY 2018, the IRS made progress addressing a longstanding material weakness in its internal controls over unpaid assessments. IRS management approved the extension of one open remediation action to a future date. The open remediation action and seven other actions have expected completion dates between FY 2019 and FY 2021.</p>
<p>Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertion</p> <p>National Drug Enforcement Policy, 21 U.S.C. § 1704(d), and the ONDCP Circular entitled <i>Drug control Accounting</i>, dated May 1, 2007.</p>	<p>Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.</p>	<p>Ref. No. 2019-10-020; Feb. 2019</p> <p>TIGTA identified significant variances reported between IRS actual results and its performance goals. Additionally, the ONDCP Circular requires an agency to provide a description of its plans and schedules for meeting future goals if any performance goal for the most recent fiscal year was not met. TIGTA found that the IRS did not include this information in its report.</p>
<p>Government Charge Card Abuse Prevention Act of 2012</p> <p>Pub. L. No. 112-194 (October 2012)</p>	<p>Requires TIGTA to report on the IRS progress in implementing purchase and travel card audit recommendations.</p>	<p>Ref. No. 2019-10-023; Mar. 2019</p> <p>The IRS identified and properly reported instances of confirmed and potential charge card misuse. TIGTA found no open recommendations associated with prior audits of IRS purchase or travel cards.</p> <p>Ref. No. 2019-10-053; July 2019</p> <p>TIGTA's review of the IRS's purchase card program found that controls are generally effective and the number of purchase card violations identified by the IRS Credit Card Services Branch were minimal and generally for nominal amounts.</p>
<p>Improper Payments Elimination and Recovery Act of 2010 (IPERA)</p> <p>31 U.S.C. § 3321</p>	<p>Requires TIGTA to assess the IRS's compliance with improper payment requirements.</p>	<p>Ref. No. 2019-40-039; May 2019</p> <p>The IRS continues to incorrectly rate the improper payment risk associated with the Additional Child Tax Credit, the American Opportunity Tax Credit, and the Premium Tax Credit. The incorrect rating allows the IRS to circumvent the reporting of required information for these programs to the Department of the Treasury for inclusion in the Agency Financial Report.</p>
<p>Digital Accountability and Transparency Act of 2014 (DATA Act)</p> <p>Pub. L. No. 113-101, 128 Stat. 1124 (2014)</p>	<p>Requires TIGTA to assess the completeness, timeliness, quality and accuracy of data that the IRS submits to comply with the DATA Act.</p>	<p>Fieldwork currently in progress.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Fixing America's Surface Transportation Act</p> <p>Pub. L. No. 114-94</p>	<p>Requires TIGTA to perform an independent biannual assessment of private debt collection performance.</p>	<p>Ref. No. 2019-30-018; Dec. 2018</p> <p>Performance attributes focus almost entirely on the Private Collection Agency's (PCA) telephone conversations with the taxpayers and do not measure other important aspects of case management. TIGTA learned that PCA payment calculators do not calculate interest and penalties accurately.</p>

Appendix IV

Section 1203 Standards

In general, the Commissioner of Internal Revenue shall terminate any IRS employee if there is a final administrative or judicial determination that, in the performance of official duties, such employee committed any misconduct violations outlined below. Such termination shall be a removal for cause on charges of misconduct.

Misconduct violations include:

- Willfully failing to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;
- Providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;
- Violating, with respect to a taxpayer, taxpayer representative, or other employee of the IRS, any right under the Constitution of the United States, or any civil right established under Title VI or VII of the Civil Rights Act of 1964; Title IX of the Education Amendments of 1972; Age Discrimination in Employment Act of 1967; Age Discrimination Act of 1975; Section 501 or 504 of the Rehabilitation Act of 1973; or Title I of the Americans With Disabilities Act of 1990;
- Falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;
- Committing assault or battery on a taxpayer, taxpayer representative, or another employee of the IRS, but only if there is a criminal conviction or a final judgment by a court in a civil case with respect to the assault or battery;
- Violating the Internal Revenue Code of 1986, as amended (I.R.C.), the Department of the Treasury regulations, or policies of the IRS (including the Internal Revenue Manual) for the purpose of retaliating against or harassing a taxpayer, taxpayer representative, or other employee of the IRS;
- Willfully misusing provisions of § 6103 of the I.R.C. 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 therefore (including any extensions), unless such failure is due to reasonable cause and not to willful neglect;
- Willfully understating Federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect; and
- Threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

The Commissioner of Internal Revenue may mitigate the penalty of removal for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner, in his or her sole discretion, may establish a procedure that will be used to decide whether an individual should be referred to the Commissioner for determination. Any mitigation determination by the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.

Appendix V

Inspector General Peer Review Activity April 1, 2019 – September 30, 2019

This appendix implements Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act.³⁴

Peer Reviews Conducted of TIGTA by Another Office of Inspector General

There were no reviews conducted of TIGTA by another Office of Inspector General during the reporting period.

Outstanding Recommendations from Peer Reviews of TIGTA

There are no outstanding recommendations from peer reviews of TIGTA.

Peer Reviews Conducted by TIGTA

There were no reviews of another Office of Inspector General conducted by TIGTA during the reporting period.

Outstanding Recommendations from Peer Reviews Conducted by TIGTA

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


³⁴ 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, 2019 through September 30, 2019. 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. complaints

Internal Revenue Service Memorandum

 <p>DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D.C. 20224</p> <p>MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p>FROM: <i>Julia Calamia</i> Julia Calamia Director, Workforce Relations Division</p> <p>SUBJECT: Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress</p> <p>In response to your memorandum dated July 12, 2019, 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(e)(2)(A)(ii) for April 1, 2019, through September 30, 2019.</p> <ul style="list-style-type: none">• Report of Employee Misconduct by Disposition Groups• Report of Employee Misconduct – National Summary• Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS) <p>The attached tables contain information about:</p> <ul style="list-style-type: none">• Alleged misconduct reported to IRS managers• Disposition of the allegations resolved during the period• Status of the inventory as of September 30, 2019 <p>The tables contain information about alleged misconduct that both TIGTA and IRS management investigated. The IRS received these allegations from taxpayers, IRS employees, and other sources, and recorded them in ALERTS.</p> <p>The Summary of Substantiated Section 1203 Allegations contains information on the disposition of substantiated Section 1203 allegations. During this period, IRS managers substantiated 248 Section 1203 allegations and removed 20 employees as a result. 12 employees retired or resigned before a final administrative action by management. In nine (9) of the removals, IRS management considered information in a TIGTA investigation. The Commissioner mitigated proposed removals in 12 cases. The remaining 190 substantiated allegations are still in the adjudication process.</p>	<p>2</p> <p>If you have any questions, please contact Brian Sherry, Acting Associate Director, LRIER Field Operations at (202) 517-5516.</p> <p>Attachments (3)</p> <p>cc: Charles P. Rettig, Commissioner of Internal Revenue Kirsten Wielechob, Deputy Commissioner for Services and Enforcement Jeffrey Tribiano, Deputy Commissioner for Operations Support Tony Lombos, Chief, Communications & Liaison Mark Kalzon, Associate Chief Counsel (IGLS) Robin D. Bailey, Jr., Chief Human Capital Officer</p>
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The Following Tables Are Provided by the IRS:

Report of Employee Misconduct by Disposition Groups

Period Covering April 1, 2019 – September 30, 2019

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Totals
REMOVAL (PROBATION PERIOD COMPLETE)	25	58	22	—	105
REMOVAL AT OPM DIRECTION	—	—	—	7	7
PROBATION/SEPARATION	1	167	0	2	170
SEPARATION OF TEMPORARY EMPLOYEE	—	46	5	2	53
RESIGNATION, RETIREMENT, ETC. (REASON NOTED ON SF50)	9	18	12	1	40
RESIGNATION, RETIREMENT, ETC. (REASON NOT NOTED ON SF50)	29	80	62	1	172
SUSPENSION, 14 DAYS OR LESS	49	81	117	2	249
SUSPENSION, MORE THAN 14 DAYS	21	17	17	—	55
INDEFINITE SUSPENSION	—	3	—	—	3
REPRIMAND	45	114	201	5	365
ADMONISHMENT	27	135	439	5	606
WRITTEN COUNSELING	25	110	329	17	481
ORAL COUNSELING	—	17	19	—	36
AD: IN LIEU OF REPRIMAND	5	6	11	—	22
AD: IN LIEU OF SUSPENSION	6	9	22	1	38
CLEARANCE LETTER	47	53	18	—	118
CLOSED WITHOUT ACTION CAUTIONARY LETTER	83	134	163	100	480
CLOSED WITHOUT ACTION LETTER	37	70	38	10	155
TERMINATION FOR ABANDONMENT OF POSITION	—	73	—	—	73
CASE SUSPENDED PENDING EMPLOYEE RETURN TO DUTY	—	1	—	—	1
PROSECUTION PENDING FOR TIGTA'S ROI	2	—	—	—	2
CLOSED - SUPPLEMENTAL REQUESTED	—	—	—	—	—
FORWARDED TO TIGTA	—	—	—	—	—
TOTAL	411	1,192	1,475	153	3,231

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

Note: Columns containing numbers of two or less and protected by I.R.C. § 6103 are notated with a zero and are not reflected in the column and row totals.

Extract Date: October 1, 2019

Report of Employee Misconduct National Summary

Period Covering April 1, 2019 – September 30, 2019

Inventory Case Type	Open Inventory	Conduct Cases Received	Cases Closed			Ending Inventory
			Conduct Issues	Cases Merged with Other Cases	Non-Conduct Issues	
ADMINISTRATIVE CASE	605	1,506	1,406	41	68	596
EMPLOYEE CHARACTER INVESTIGATION	54	215	178	9	—	82
EMPLOYEE TAX COMPLIANCE CASE	1,515	1,964	1,614	70	—	1,795
TIGTA REPORT OF INVESTIGATION	568	482	493	11	—	546
Total	2,742	4,167	3,691	131	68	3,019

Source: ALERTS

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

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.

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

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

Extract Date: October 1, 2019

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

Period Covering April 1, 2019 – September 30, 2019

§ 1203 Violation	Removals	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated	In Personnel Process	Total
§1203(b)(4): CONCEALED WORK ERROR	—	—	—	1	—	1	2
§1203(b)(8): WILLFUL UNTIMELY RETURN	9	4	—	3	5	88	109
§1203(b)(9): WILLFUL UNDERSTATED TAX	11	8	—	5	7	106	137
Total	20	12	—	9	12	195	248

Source: ALERTS

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

Extract Date: October 1, 2019

Glossary of Acronyms

ALERTS	Automated Labor and Employee Relations Tracking System
ANMF	Automated Non-Master File
CAA	Certified Acceptance Agent
CAF	Centralized Authorization File
CCI	Centralized Case Intake
CDP	Collection Due Process
CIC	Cyber Investigative Cadre
CY	Calendar Year
DIF	Discriminant Index Function
DOJ	Department of Justice
EEFax	Enterprise Electronic Fax
EIN	Employer Identification Number
ERO	Electronic Return Originator
FAFSA	Free Application for Federal Student Aid
FCC	Federal Communications Commission
FDCPA	Fair Debt Collection Practices Act
FFI	Foreign Financial Institution
FinCEN	Financial Crimes Enforcement Network
FIRE	Filing Information Returns Electronically
FMSS	Facilities Management and Security Services
FRTIB	Federal Retirement Thrift Investment Board
FSA-ID	Federal Student Aid Identification
FTC	Federal Trade Commission

FTCP	Fair Tax Collection Practices
FUTA	Federal Unemployment Tax
FY	Fiscal Year
GPR	General Purpose Reloadable
HCTC	Health Coverage Tax Credit
I&E	Office of Inspections and Evaluations
I.R.C.	Internal Revenue Code
IGA	Intergovernmental Agreement
IP PIN	Identity Protection Personal Identification Number
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigation
ITIN	Individual Taxpayer Identification Number
JAMES	Joint Audit Management Enterprise System
KISAM-AM	Knowledge Incident/Problem Service Asset Management-Asset Manager
LB&I	Large Business and International
LLC	Limited Liability Company
NARA	National Archives and Records Administration
NFTL	Notice of Federal Tax Lien
OEP	Office of Employee Protection
OI	Office of Investigations
OPM	Office of Personnel Management
PCA	Private Collection Agency
PII	Personally Identifiable Information

PY	Processing Year
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
RTS	Real-Time System
SB/SE	Small Business/Self-Employed
SBU	Sensitive But Unclassified
SSM	Strategic Supplier Management
SSN	Social Security Number
TAS	Taxpayer Advocate Service
TCJA	Tax Cuts and Jobs Act of 2017
TE/GE	Tax Exempt and Government Entities
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
TY	Tax Year
USCIS	U.S. Citizenship and Immigration Services
W&I	Wage and Investment

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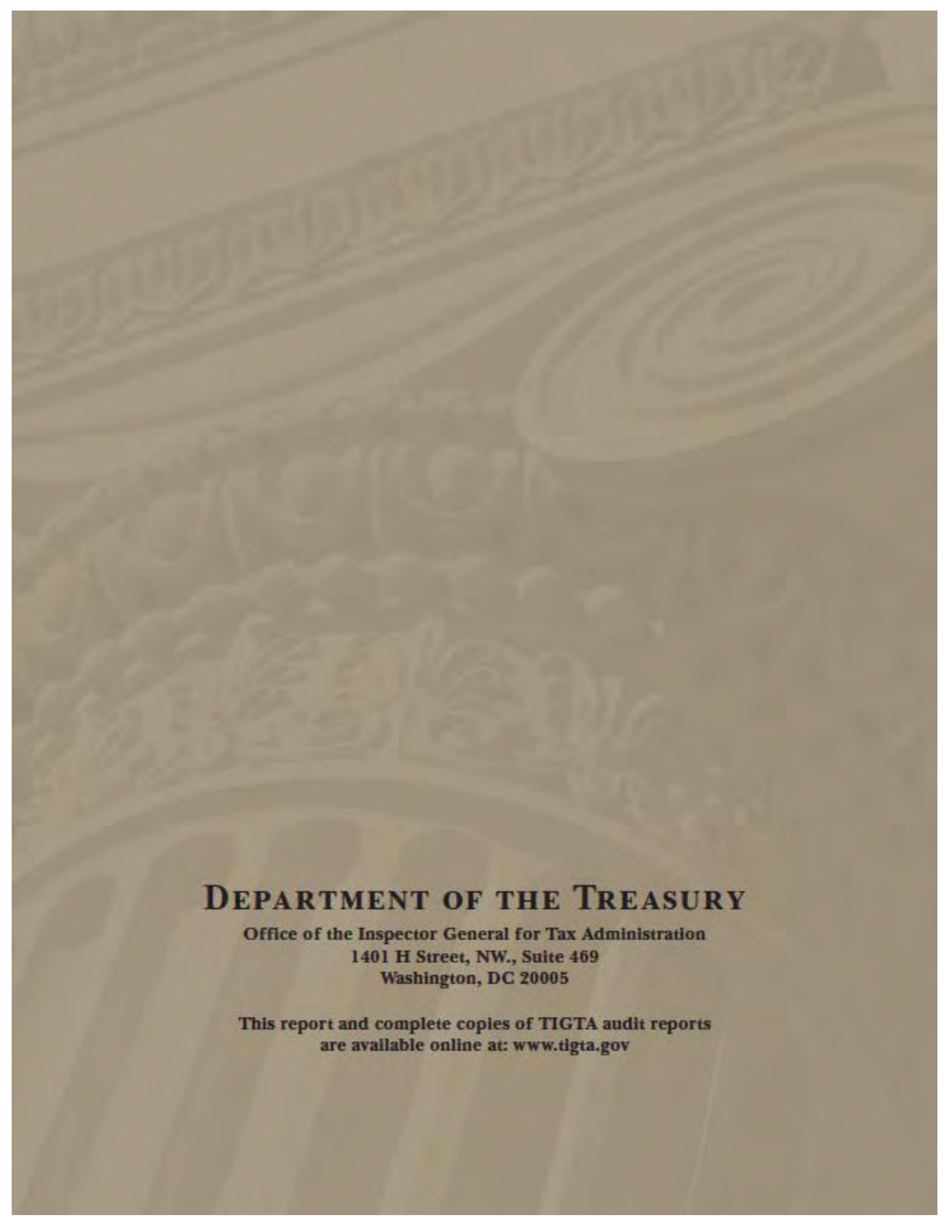
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DEPARTMENT OF THE TREASURY

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