Treasury Inspector General
for Tax Administration

25TH ANNIVERSARY OF THE IG ACT

Semiannual Report to Congress

October 1, 2002
through
March 31, 2003

Message from the IG

Acting Inspector General
Pamela J. Gardiner

This year we are proud to join in the observance of the 25th anniversary of the *Inspector General (IG) Act.* We will describe the evolution of the Treasury Inspector General for Tax Administration (TIGTA), one of the newer IGs established in 1999, and our continued contribution to the IG community and the public-at-large (see page 5).

In looking over the past six months, we have continued to operate successfully during a period of transition and critical developments. We began 2003 by welcoming a new Secretary of the Treasury, John W. Snow. Additionally, the divestiture of a significant portion of Treasury resources to the Department of Homeland Security has had a major impact throughout the Department.

We are eagerly anticipating working with a new Commissioner of Internal Revenue, as well as a new Internal Revenue Service (IRS) executive leadership team. During IRS' transition period, it is vital for TIGTA's work to provide useful, balanced information to decision-makers. We are doing this by supporting IRS in achieving its strategic goals, identifying and addressing IRS' material weaknesses, and by ferreting out and neutralizing threats posed to tax administration by corruption, fraud, and terrorism. Our accomplishments during this reporting period helped improve tax administration and subsequently aided taxpayers nationwide. With the issuance of 89 audit reports, we identified more than $43 million in cost savings, and an additional $12.8 million in increased revenue or revenue protected. Our audits assessed such IRS operational and programmatic issues as business systems modernization, tax compliance initiatives, computer and physical security, performance and financial management, customer service, returns processing, and the filing season.

To combat fraud, waste and abuse, our investigative work centered on IRS employee integrity, IRS employee and infrastructure security, and external attempts to corrupt federal tax administration. During this reporting period, we received 3,997 complaints of alleged criminal wrongdoing or administrative misconduct. We opened 2,487 investigations and closed 2,489. Additionally, Counsel reviewed 85 proposed regulations and legislative requests. Highlights of our work are included in this *Semiannual Report to Congress*.

As we approach the second half of the fiscal year, we look forward to working with the new Treasury and IRS executives and with Congress to establish a productive relationship that benefits the public through improved tax administration.

Sincerely,

Pamela J. Gardiner

March 31, 2003

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25th Anniversary of the *IG Act*

This marks the 25th year of the *IG Act,*[1] which was enacted on October 12, 1978. Today, it remains the cornerstone for centralized, independent audits and investigations that foster accountability and integrity in government programs and operations. Currently, there are 57 statutory IGs who view themselves as "agents of positive change," providing a significant, positive force in the federal government for improving economy, efficiency, and effectiveness; strengthening accountability and transparency; and detecting and deterring fraud, waste, and abuse.

TIGTA's Evolution

IRS' Office of Chief Inspector (also known as the Inspection Service) was created in October 1951 in response to reports of widespread corruption in IRS. The Chief Inspector reported directly to the Commissioner and Deputy Commissioner and derived specific and general authority by delegation from them.

In 1998, after comprehensive consideration of the operations and organization of the IRS, Congress ordered sweeping changes. As part of its IRS reorganization, Congress concluded that the Inspection Service lacked sufficient structural and actual autonomy to provide the needed oversight to IRS. Further, the relationship between the Treasury IG and the IRS' Office of Chief Inspector did not foster appropriate IRS oversight.

Congress decided to establish an independent IG within the Department of Treasury. Its primary focus and responsibility would be to audit, investigate, and evaluate IRS programs to improve the quality and credibility of IRS oversight. As a result, the *Internal Revenue Service*

TIGTA's Statutory Mission

- **Protect** the IRS against external attempts to corrupt or threaten its employees.
- **Provide** policy direction and conduct, supervise and coordinate audits and investigations relating to the programs and operations of IRS.
- **Prevent** and detect fraud, waste, and abuse in IRS programs and operations.
- **Promote** economy and efficiency in the administration of the tax laws.
- **Inform** the Secretary of Treasury and Congress of problems identified and the progress made in resolving them.
- **Review** existing and proposed legislation and regulations relating to programs and operations of IRS and make recommendations concerning the impact of such legislation or regulations.

[1] *Inspector General Act of 1978, 5 U.S.C.A. app. 3* (West Supp.2003).

Restructuring and Reform Act of 1998 (RRA 98) [2] created TIGTA, and it became an operational IG in 1999.

Early on, TIGTA concentrated on becoming compliant with numerous laws and IG regulations and assuring that it operated in a manner compatible and conforming with Treasury policies. Simultaneously, TIGTA addressed the need to significantly increase productivity levels. TIGTA immediately abolished the regional structure of its predecessor organization, which eliminated an unnecessary and remote layer of management. TIGTA organized the Office of Investigations into direct report field offices and the Office of Audit reorganized into specialized issue areas that parallel IRS' business unit structure. TIGTA was able to provide internal support services more efficiently and eliminated two layers of management through its streamlining efforts. TIGTA also identified ways in which audits and investigations could be completed faster and more efficiently.

Ahead of the curve, TIGTA integrated its budget and performance functions before this became one of the top issues of the *President's Management Agenda.*[3] TIGTA fully embraced the idea of telecommuting by instituting a program, entitled the *Virtual Resource Solution.* Currently, 98% of TIGTA employees are eligible to telecommute and, of these, 37% actually do so two or more days per week.

TIGTA HIGHLIGHTS

- **FINANCIAL ACCOMPLISHMENTS** TIGTA has significantly increased its productivity levels despite having reduced historic full-time equivalent (FTE) staffing. For FY 2002, TIGTA had financial accomplishments resulting from proposed cost savings and increased revenue/revenue protected of $800.5 million. TIGTA continues to be a good investment for the American public. For FY 2002, we returned $6 for every budget dollar invested in TIGTA. For every FTE, we returned $862,000.

- **PCIE SUPPORT** Between 1999 and 2003, TIGTA managed the Inspector General Training Academy, which was partially staffed by TIGTA personnel. Additionally, TIGTA's Inspector General served as editor-in-chief of the President's Council on Integrity and Efficiency (PCIE) *Journal of Public Inquiry* from 1999 through 2002.

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[2] *Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98*) *Pub. L.105-206, 112 Stat. 685.* (codified as amended in scattered sections of *2 U.S.C., 5 U.S.C., 5 No. 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.*)

[3] *The President's Management Agenda FY 2002*, Office of Management and Budget.

- **COUNTER-TERRORISM VIGILANCE** After the terrorist attacks of September 11, 2001, TIGTA faced great challenges in combating terrorism targeted at the IRS. In response to heightened security concerns and TIGTA's responsibility for investigating threats against the IRS and its employees, TIGTA established a Counter-Terrorism Section (CTS). The CTS coordinates investigative efforts and is the centralized repository and dissemination point of threat information to the IRS. The CTS proactively identifies domestic and international threats made to the IRS by participating on nationwide Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces (JTTFs); evaluating information developed by JTTFs and other sources; initiating investigations; and issuing intelligence reports and advisories notifying TIGTA and IRS management of potential threats.

In noting this 25th anniversary, TIGTA continues to support the IG community and serve the American public by successfully carrying out the intent and statutory requirements of the *IG Act*.

TIGTA's Organizational Structure

TIGTA provides independent oversight of IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. TIGTA is organizationally placed within the Department of Treasury, but it is independent of the Department and all other Treasury offices. TIGTA's focus is devoted to all aspects of work related to tax administration.

TIGTA's primary organizational functions are the Office of Audit (OA) and the Office of Investigations (OI). TIGTA's Offices of Chief Counsel, Information Technology, and Management Services support OA's and OI's efforts.

TIGTA is structured to conduct audits and investigations designed to:

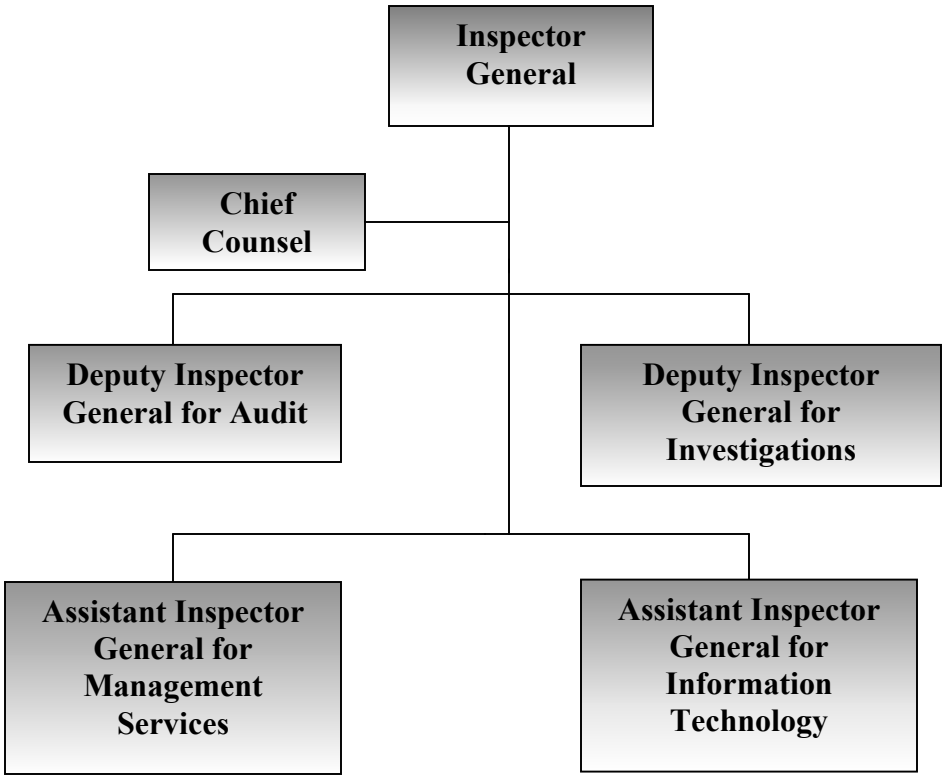
- Promote economy, efficiency, and effectiveness in administering the nation's tax system.
- Detect and deter waste, fraud and abuse in IRS programs and operations.
- Protect IRS against external attempts to corrupt or threaten its employees.

AUTHORITIES

TIGTA has all the authorities granted under the *Inspector General Act of 1978, as amended*. TIGTA also has access to tax information in the performance of its tax administration responsibilities and has the obligation to report potential criminal violations directly to the Department of Justice. The IG and the Commissioner of Internal Revenue have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the internal revenue laws.

In addition, *RRA 98* amended the *Inspector General Act of 1978* to give TIGTA statutory authority to carry firearms and execute the provisions of the *Internal Revenue Code* (*I.R.C.)* §7*608(b)(2)*. These provisions include law enforcement authority to execute and serve search warrants, serve subpoenas, and make arrests.

TIGTA Organizational Chart



The following two report sections highlight TIGTA's significant audit and investigative activities for this semiannual period.

TIGTA Strategic Goal: Improving the Economy, Efficiency and Effectiveness of Tax Administration

TIGTA provides an independent oversight function to IRS, which collects more than $2.1 trillion annually to fund the nation's government. TIGTA ensures that it meets the strategic goal of improving the economy, efficiency and effectiveness of tax administration by focusing resources on fundamental goals related to IRS' programs. Emphasis is also placed on statutory coverage imposed by *RRA 98*, as well as areas of concern to the Commissioner of Internal Revenue.

Each year, TIGTA identifies the major management challenges facing IRS. The **MAJOR MANAGEMENT CHALLENGES** in **FY 2003**, in order of priority, are:

- **SYSTEMS MODERNIZATION**
- **TAX COMPLIANCE** Initiatives
- **SECURITY**
  - Employees and Facilities
  - Information Systems
- **INTEGRATING PERFORMANCE** and **FINANCIAL MANAGEMENT**
- **PROCESSING RETURNS** and Implementing **TAX LAW CHANGES**
- **COMPLEXITY** of the **TAX LAW**
- Providing Quality **CUSTOMER SERVICE** Operations
- **ERRONEOUS PAYMENTS**
- **TAXPAYER PROTECTION** and Rights
- **HUMAN CAPITAL**

This section highlights the significant contributions TIGTA has made to IRS programs and operations through its audits in seven of the ten major management challenge areas.

IRS Systems Modernization

Dramatic improvements in service to taxpayers are heavily dependent on modernizing IRS' core computer systems, which has been an ongoing challenge. IRS' major modernization projects continue to experience delays, cost increases, management difficulties, and reductions in deliverables.

Business Systems Modernization: Costs, Schedules, and Functionality

Beginning in 2001, the Business Systems Modernization (BSM) program has been deploying projects and learning valuable lessons that should help improve future projects. Deployed projects have increased the capacity of IRS' telephone system; improved the ability to receive, route, and respond to taxpayer telephone calls; and provided refund information via the Internet. However, as reported in previous TIGTA and General Accounting Office reports, the BSM program has experienced difficulties meeting the original cost, schedule, and functionality estimates included in the BSM Spending Plans submitted to Congress.

So far, the eight BSM projects that are currently being developed and deployed have experienced cost increases of 26% and delays averaging 13 months over initial estimates, most occurring during the planning and design phases of these projects. The BSM Office forecasts that future project costs and schedules will be much closer to the estimates. Since the purpose of this review was to identify and analyze the cost, schedule, and functionality performance compared to the original project estimates, TIGTA made an assessment but did not make any recommendations. IRS management agreed with TIGTA's assessment.
Report Reference No. 2003-20-007

Customer Account Data Engine – the Master File Replacement

The Customer Account Data Engine (CADE) will replace IRS' current Master File of taxpayer accounts, and is the foundation for managing these accounts in IRS' modernization plan. The individual tax accounts portion of the CADE will be deployed in five segments (releases) over several years.

The following report presents the results of TIGTA's review of *Release 1.* IRS and its contractor have made progress in delivering the CADE project by building a substantial portion of *Release 1* and creating a comprehensive foundation for all five releases. However, the development of the CADE project by the contractor has experienced significant delays, with the *Release 1* deployment date now estimated to be June 2003 (about 18 months behind its planned delivery date). The development has also experienced cost increases, with the original estimate for *Release 1* of approximately $51.9 million being revised six months later to $64.6 million. IRS had actually spent $54.5 million on *Release 1* through September 2002. Project delays can be attributed to difficulties in identifying and managing the project requirements,

specifically in developing the balancing, control, and reconciliation process; comprehensive documentation for the CADE Computer Operations Handbook; and computer system naming standards.

To help meet the *Release 1* deployment expectations, TIGTA recommended IRS' BSM Office work with the contractor to ensure that the business system design is completed, and establish a detailed schedule of the remaining work. IRS management agreed with the recommendations and is taking corrective action.
Report Reference No. 2003-20-089

TAX COMPLIANCE INITIATIVES

IRS' goal of providing world-class service to taxpayers hinges on the theory that if IRS provides the right mix of education, support, and up-front problem solving to taxpayers, the overall rate of voluntary compliance with the tax laws will increase. The challenge to IRS management is to establish a tax compliance program (examining tax returns and collecting tax liabilities) that identifies those citizens who do not meet their tax obligations - either by not paying the correct amount of tax or not filing proper tax returns - and that effectively brings them into compliance. As part of its 2000 reorganization, IRS has begun to revamp its business processes to stabilize the traditional compliance activities.

LEGAL ADVICE PROVIDED TO EXAMINERS

IRS' Large and Mid-Size Business (LMSB) Division has been working to improve the timeliness of providing legal advice in LMSB Division examinations. It has made positive organizational changes and implemented new initiatives that show promise in reducing the length of LMSB Division examinations. However, the length of time it takes to provide legal advice to examiners is substantial because of issues in both the requesting and delivering of legal services. This may hamper the Division's ability to meet its FY 2003 goal for timely completing examinations.

TIGTA recommended that IRS attorneys be required to assist in the risk analysis process to better ensure the need for legal advice is identified and requested earlier in examinations. In addition, management should ensure that the data in the Office of Chief Counsel's management information system is complete so delays and other problems in the delivery of legal advice can be quickly identified and addressed. IRS management agreed with the recommendations and is taking corrective action.
Report Reference No. 2003-30-021

CONTRACTING OUT COLLECTION ACTIVITY

TIGTA reviewed IRS' plan to contract out some collection activity to private contractors. IRS' preliminary planning related to the use of Collection Contract Support (CCS) companies was extensive and included a detailed evaluation of similar existing programs at other federal and state government entities. IRS also prepared a draft Request for Quotation (RFQ) for the CCS initiative, which it planned to issue during the second quarter of FY 2003.

Although IRS' preliminary planning efforts have been good, overall effectiveness could be enhanced by providing greater specificity in the draft RFQ regarding the management information IRS will require from contractors, such as weekly telephone reports; providing more detailed requirements in the draft RFQ regarding the protection of taxpayer rights; and reexamining IRS' preliminary projections regarding the volume of cases to be initially released to CCS companies. IRS management agreed to the recommendations and has implemented corrective actions.
Report Reference No. 2003-30-075

IRS SECURITY

The terrorist attacks on September 11, 2001 and the subsequent anthrax incident highlighted vulnerabilities in many businesses and government agencies. Like other organizations, IRS must remain vigilant to all opportunities to enhance employee safety and the security of its information systems and taxpayer data.

COMPUTER SECURITY

IRS is responsible for maintaining the privacy of tax information for about 130 million taxpayers. To enhance security, TIGTA believes it is critical that IRS understand the techniques used by those who could benefit from unlawfully accessing taxpayer information. Consequently, TIGTA asked a contractor to test the security access to IRS' systems, by attempting to "hack" into IRS systems both from the Internet and when given internal access. The contractor found no security vulnerabilities that could be exploited at the Internet gateways; but, when the contractor had access to the internal computers, it found numerous security weaknesses that needed corrections. Recommendations were made to correct the specific weaknesses identified with which IRS management agreed.
Report Reference No. 2003-20-082

PHYSICAL SECURITY

IRS requires both its employees and its contractors to have background investigations to ensure their honesty and integrity. A TIGTA audit showed that IRS had assured that 93% of the employee background

investigations and 96% of the re-investigations were completed or in-process at the time of TIGTA's review.

However, contractor employee background investigations were not properly controlled, and not all background investigations were requested when required. Similarly, identification badges were issued without required background investigation documentation, allowing more than 500 contractor employees to have access to IRS' New Carrollton, Maryland building without background checks.

TIGTA recommended that follow-up actions should be taken to initiate or complete background investigations on the employees without current, completed investigations; management reports should be properly used to monitor timely completion of future background investigations; database information should be complete and accurate; and a consolidated or integrated computer system that meets the needs of all stakeholders should be implemented. IRS management agreed with the recommendations presented in this report and is planning corrective actions. Report Reference No. 2003-20-049

In other physical security work, TIGTA auditors and investigators reviewed IRS' Guard Service Contract as a joint initiative because of heightened security concerns after the events of September 11, 2001. Validations completed through October 2002 did not identify any issues related to the current employment of security guards with criminal convictions or immigration violations, but TIGTA is continuing to perform additional verifications and follow-up with the appropriate government agencies.

However, increased oversight is needed to ensure the contractor's compliance with all contract terms and conditions, particularly those concerning licensing. The contractor operated for periods of time in two Washington, D.C. metropolitan area offices without all company and individual security guard licensing and certifications required by the contract and by law. IRS paid approximately $4.7 million during the time the contractor was in violation of the contract. Also, security guards at one location were in effect carrying weapons without legal authority to do so. TIGTA auditors recommended that additional monitoring should be performed to ensure the contractor complies with all contract terms and conditions; and, all remedies regarding appropriate legal action should be coordinated with the United States Attorney's Office and with TIGTA's investigative function. In addition, TIGTA recommended changes should be considered to the award fee plan to make compliance with all contract terms and conditions a prerequisite for award fee eligibility. IRS management agreed with the recommendations and is taking corrective actions. Report Reference No. 2003-10-076

INTEGRATING PERFORMANCE AND FINANCIAL MANAGEMENT

Improving government performance is an overall goal of the current Administration. In particular, a clean financial audit is a basic prescription for any well-managed organization. Without accurate and timely financial information, it is not possible to accomplish the *President's Management Agenda* to secure the best performance and highest measure of accountability for the American people.

PERFORMANCE MANAGEMENT

In May 2002, IRS completed a competitive sourcing feasibility study of the print operation and computer support function, which recommended an Office of Management and Budget *Circular A-76* competition. As part of the 1997 Service Center Mainframe Consolidation (SCMC) Business Case, IRS standardized the organizational structure of the Information Systems Division, which includes the print operation and computer support function at the IRS' 10 campuses;[4] standardized mission statements, roles, and responsibilities; and proposed significant staffing reductions. Since then, management has frequently evaluated and modified the organizational structure to accomplish program objectives.

However, TIGTA recommended further management actions to increase electronic dissemination of internal reports and improve performance measures, which could result in additional cost savings and increased productivity. IRS management agreed with the recommendations and is taking corrective action. Report Reference No. 2003-20-035

FINANCIAL MANAGEMENT

IRS is authorized to collect a federal employer tax to fund the Unemployment Trust Fund (UTF). The Secretary of Treasury pays from the UTF the amount estimated to be expended by the Department of the Treasury, including IRS (which accounts for approximately 99% of the expenses), for this collection service. TIGTA's review of IRS' UTF reporting for FY 1999 through the third quarter of FY 2002 showed that reported administrative expenses could not be supported or replicated, and that required reports were not always properly prepared or timely submitted. As a result, TIGTA was not able to substantiate the reported expenses or make any assurances that they were accurate, complete, or consistent.

In addition, IRS' recently adopted method of reporting the expenses, based on a ratio of revenue collected, might not be appropriate.

[4] IRS' 10 campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

IRS applied a complexity adjustment to compensate for the significant increase (from $240 million to over $2.8 billion) in the charges to the Federal Old Age and Survivors Insurance (FOASI) Trust Fund, and thus brought the reportable FOASI amount back to what had been historically reported. This complexity adjustment did not have any supporting analysis or an accounting of the true costs to IRS to administer the trust fund taxes. Instead, TIGTA believes that data may exist that could be used to more accurately estimate these expenses.

TIGTA recommended that written procedures be developed to ensure the most reasonable and timely means of identifying and reporting all expenses, and that controls be established to ensure that any amounts are reviewed and approved by a senior level IRS executive. Also, IRS needs to ensure that the ability to record and report these expenses is properly implemented as envisioned in the Integrated Financial System development plan. IRS management agreed with the recommendations and is taking corrective action. Report Reference No. 2003-10-054

Federal Financial Management Improvement Act of 1996

The *Federal Financial Management Improvement Act of 1996 (FFMIA)* [5] requires agencies to maintain financial management systems that comply substantially with federal requirements. If a determination is made that an agency does not comply with these requirements, a remediation plan should be established with resources, remedies, and intermediate target dates to bring the agency into substantial compliance. *FFMIA* further mandates that IGs report to Congress instances and reasons when an agency has not met intermediate target dates.

TIGTA reviewed IRS' remediation plan and did not identify any instances where the IRS did not meet established target dates. However, 18 intermediate target dates were extended with acceptable reasons for actions scheduled for completion in Calendar Year (CY) 2002. The IRS properly obtained Office of Management and Budget concurrence for remedial actions with target dates that extend longer than three years from the initial reporting of the financial weakness. In addition, the IRS adequately addressed General Accounting Office recommendations meeting *FFMIA* criteria in the remediation plan.

TIGTA did identify, however, that some resources included in the remediation plan were not verifiable to supporting documentation and that functional areas were not consistently reporting resources shown in the remediation plan. Accordingly, TIGTA recommended that procedures be established that include a process for verifying the resources included

[5] *Federal Financial Management Improvement Act of 1996, 31 U.S.C. § 3512.*

in the IRS' *FFMIA* remediation plan and that provide for consistent reporting of such resources by the responsible functions. IRS management agreed with the recommendation and has taken corrective action. Report Reference No. 2003-10-079

CUSTOMER SERVICE, RETURNS PROCESSING AND THE FILING SEASON

Providing top quality service to every taxpayer in every transaction is integral to IRS' modernization plans. There are many ways in which IRS provides customer service. The most direct include walk-in service, toll-free telephone service, access through the IRS' Internet (*Digital Daily*), written communications to taxpayers, and accurate and timely tax refunds. Each of these services affects a taxpayer's ability and desire to voluntarily comply with the tax laws. The tax return filing season also impacts every American taxpayer and is, therefore, always a highly critical program for IRS. In addition to providing customer service to American taxpayers, IRS must coordinate tax law changes, programs, activities, and resources to effectively plan and manage each filing season.

TAXPAYER ASSISTANCE CENTERS

Throughout the past year, TIGTA has been reviewing the performance of the Taxpayer Assistance Centers (TAC) in providing answers to taxpayers' questions via walk-in service, based on concerns expressed by Senator Byron Dorgan (D-North Dakota), then Chairman of the Subcommittee on Treasury and General Government. While IRS has made some progress in improving the quality of service at TACs, additional improvements are needed. During July through December 2002, auditors asked 332 tax law questions in 83 TACs. TIGTA reported that IRS employees incorrectly answered 92 questions (28%) and referred the auditor to IRS publications to conduct his or her own research for 40 questions (12%). TIGTA has not made any recommendations thus far, but will be issuing a roll-up report that will include recommendations to help improve the accuracy rate. Also, in October 2002, IRS began its own internal quality review visits to TACs to anonymously ask tax law questions.

TIGTA auditors generally had positive experiences when they visited TACs and found that the employees were both professional and courteous, providing service within an hour. However, TIGTA auditors found in many instances that the TAC office hours and addresses obtained from IRS toll-free telephones and its internet site did not always match the information posted at the TAC. Report Reference Numbers 2003-40-023; 2003-40-024; 2003-40-040; and 2003-40-072

TOLL-FREE TELEPHONE SYSTEM

During the 2002 Filing Season,[6] taxpayers called IRS almost 76.5 million times. While IRS answered 1.6 million more total calls during the 2002 Filing Season than in the prior year, the additional calls answered were through automated services. During the 2002 Filing Season, the Customer Service Representatives (CSR) actually handled 1.73 million fewer calls than in the comparable 2001 period, and the number of calls answered by CSRs was 2.6 million less than IRS planned, thereby increasing the average cost per call answered, in salary alone, by $0.57. This occurred even though IRS received 9 million more calls than in 2001. IRS cited its reallocation of resources to work paper inventory, an increase in transferred calls, and high CSR availability rates as the reasons why the "CSR calls answered" goal was not met. Finally, IRS' toll-free system is designed to provide callers with automated assistance or, when desired, access to a CSR. IRS' critical measure for this access is based on the percentage of callers who reach a CSR after selecting that option. However, the measure omits calls where the taxpayer hung up before choosing to enter the call queue to speak with a CSR or before completing an automated service.

IRS needs to identify methods to reduce the number of transfers by determining whether there are problems in the routing scripts and whether the CSR call specialization approach needs some modification; identify ways to further refine the forecast accuracy by consulting call center industry experts; achieve greater flexibility to move CSRs from applications with low demand to applications with higher demand; and, for the current CSR Level of Service measure, develop criteria to distinguish between those taxpayers who call and hang up because they clearly did not want a service and those who disconnect for other reasons. IRS management generally agreed with the recommendations and has planned or taken corrective actions.
Report Reference No. 2003-30-001

TAX RELIEF REFUNDS FOR VICTIMS OF TERRORIST ATTACKS

TIGTA reported that IRS had implemented special procedures to process tax relief refunds for tax returns filed for deceased victims of the September 11, 2001 anthrax and Oklahoma City terrorist attacks. The program for processing these returns was referred to as the Killed in Terrorist Action (KITA) Program. IRS expected the processing of these highly sensitive KITA returns to be expedited at all times.

[6] The Filing Season is the period from January through mid-April each year during which most individual income tax returns are filed.

The KITA Project Office identified approximately 2,900 KITA victims. As of October 31, 2002, IRS had received approximately 4,500 returns for 2,400 victims to be processed in the KITA program. Based on information submitted by victims' families, IRS employees correctly computed tax relief amounts for these returns and issued manual refunds to speed relief to victims' families. However, IRS did not issue 40% of the tax relief refunds in TIGTA's sample within the time period set as a goal by KITA program management, or within a time period that TIGTA would consider to be expedited. Also, IRS did not always notify victims' families of the processing results for their tax relief requests. Based on TIGTA's concerns about processing delays and its suggestions to both clarify expected processing time periods and notify victims' families of processing results, KITA program management took actions to improve KITA processing during this review.

In addition, IRS did not always identify victims' accounts as KITA accounts on its computer system, and did not always process victims' returns through the KITA program. TIGTA recommended that the KITA project office compare its list of victims to its list of KITA-processed returns and research the accounts with no KITA-processed returns. For the accounts researched, the KITA indicator should be input to those accounts identified as needing it. In addition, for those accounts researched, any returns filed where tax relief was not granted should be corrected. IRS management agreed with the recommendations and is taking corrective action. Report Reference No. 2003-40-080

ELECTRONIC RETURN ORIGINATORS

Congress has mandated that IRS significantly increase the number of taxpayers who file their returns electronically, with a goal of having at least 80% of all such returns filed electronically by CY 2007. At present, the majority of tax returns filed in IRS' electronic filing (*e-file*) program are through Authorized IRS *e-file* providers. An Electronic Return Originator (ERO) is the authorized IRS *e-file* provider who originates the electronic submission of a return to IRS. More than 119,000 EROs are authorized to participate in IRS' *e-file* program.

TIGTA reported that IRS' ERO monitoring program could better evaluate, document, and ensure the compliance of EROs. Specifically, IRS has neither established a performance measure to determine the program's impact on ERO compliance, implemented a planning process that provides for timely training and use of effective case building information, nor developed a risk-based methodology for selecting monitoring visits. Further, program coordinators and monitors have difficulty determining the level of infractions and are not ensuring case documentation is complete.

TIGTA recommended that a meaningful performance goal and measurement for the ERO monitoring program be established; ensure follow-up visitations are made; establish a planning process to ensure timely training and case preparation; and enhance the use of the database of EROs. Also, IRS needs to better determine the mix of random and mandatory ERO visits; develop more detailed guidance on sanctions; and improve monitoring case documentation. IRS management agreed with the majority of the recommendations and has taken full or partial corrective actions, but disagreed with the recommendation to establish a goal and method of measuring program effectiveness. Management stated that while the results on specific cases, types of cases or trends could be tracked and measured, it would be impossible to measure the effect on voluntary compliance for all authorized IRS *e-file* providers. TIGTA is concerned about IRS' decision not to establish a goal and method for measuring program effectiveness in improving ERO compliance. The *President's Management Agenda* includes a requirement to link performance with the budgeting process. Further, the *Government Performance and Results Act*, the General Accounting Office's *Standards for Internal Control in the Federal Government*, and the Office of Management and Budget's *Circular A-123, Management Accountability and Control,* [7] all discuss the need to set performance goals and report annually on actual performance compared to goals. TIGTA recognizes that indicators may be difficult to develop, but believes the benefits will far outweigh the costs in linking performance with the budget process, and in allocating resources where they will have the most impact. Report Reference No. 2003-30-039

TAXPAYER PROTECTION AND RIGHTS

Implementation of the changes mandated by *RRA 98* is intended, among other things, to enhance taxpayer protection and rights. TIGTA is mandated to conduct annual reviews of specific provisions listed in *RRA 98* and also conduct reviews of other taxpayer rights issues. Results of mandated reviews completed by TIGTA during this reporting period are listed in Appendix V. Highlights of other significant reviews follow.

SAFEGUARDING TAXPAYER INFORMATION

The Chairman of the House Ways and Means Subcommittee on Social Security requested a government-wide review of how federal agencies distribute and control Social Security Numbers (SSN). TIGTA conducted its review and, in summary, reported that IRS provided information required by the *Privacy Act* and established procedures to help ensure third parties, such as federal government agencies and private

[7] *Federal Register*, Vol. 60, No. 125, June 29, 1995, p.33876 – 33882.

contractors, safeguard taxpayer information. In addition, IRS conducts on-site safeguard reviews of the agencies receiving taxpayer information every three years, as required.

However, in TIGTA's opinion, IRS needs to make improvements to safeguard its processes and procedures, which are designed to prevent the potential disclosure of taxpayer information protected by *I.R.C.* § *6103*. In addition, federal and state agency safeguard activity reports and IRS safeguard review reports were not always timely, and procedures for disclosing federal tax information to private contractors were not always effective.

TIGTA recommended that the safeguard procedures be evaluated to ensure they address the specific tax data, as well as the security of information shared under *I.R.C.* § *6103* with regard to federal and state agencies and private contractors. Also, IRS should provide clear guidance to private contractors on the safeguard requirements and their responsibilities. IRS management agreed with the recommendations and is taking corrective action. Report Reference No. 2003-40-022

FRAUDULENT REFUNDS

TIGTA also reported that Fraud Detection Center (FDC) personnel generally provided proper justification for controlling fraudulent or potentially fraudulent refund returns. However, in evaluating IRS' controls placed on certain taxpayer accounts where refund fraud has been suspected, FDC personnel were not always reviewing and reconciling the quarterly control reports and taking timely actions to resolve tax return filings that lacked criminal prosecution potential. As a result, there were unnecessary delays in refunding monies to taxpayers who had legitimate refunds due, and revenue recovery efforts were jeopardized because statutory limitation periods for making civil assessments of tax had expired. Also, although the Director, Refund Crimes had issued several guidance documents pertaining to reviews of the quarterly control reports and procedures for resolving certain types of fraudulent returns, there were no reviews performed to ensure the FDCs were complying with established procedures. In TIGTA's opinion, these reviews are an important management tool for ensuring program effectiveness and compliance with procedures.

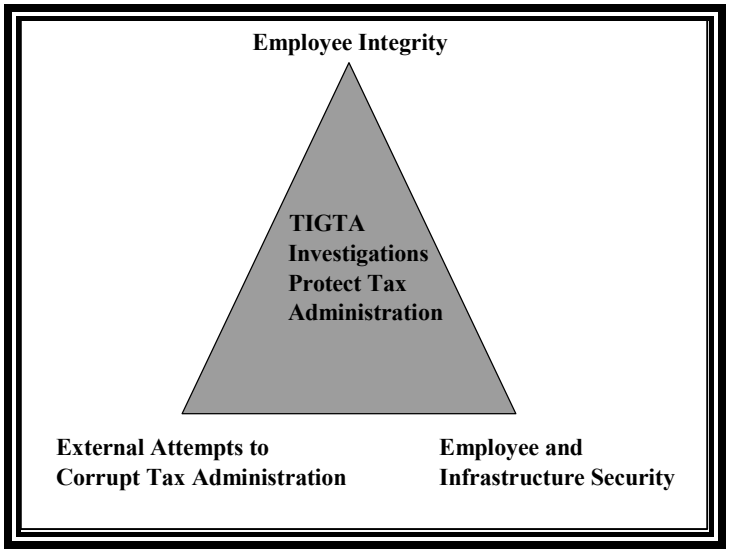
TIGTA estimated that more than 10,000 tax return filings with credits totaling more than $26 million have been subjected to year-long delays by IRS. Although most of the $26 million probably resulted from fraudulent refund claims, it is still important that the FDCs take timely action to resolve the accounts to enforce IRS' commitment to promptly apply the tax law with integrity and fairness to all. TIGTA also identified more than $1.5 million in refunds that were erroneously issued for 24 tax return filings where the statutory period for making civil assessments of tax had expired,

thereby preventing recovery of these erroneously refunded monies. To improve the process for monitoring Criminal Investigation (CI) refund controls, TIGTA recommended that IRS consider providing future control report listings to the FDCs electronically, and change the frequency of these listings to twice a year during non-peak processing periods. TIGTA also recommended that CI conduct regular oversight reviews of the process. IRS management agreed with the recommendations and is taking corrective action. Report Reference No. 2003-10-094

TIGTA Strategic Goal: Detecting and Deterring Fraud in IRS Programs and Operations

TIGTA protects the Department of Treasury's ability to collect revenue owed to the federal government. TIGTA accomplishes this goal by providing comprehensive investigative services focused on three programs: IRS employee integrity; IRS employee and infrastructure security; and external attempts to corrupt federal tax administration. Additionally, TIGTA pursues a variety of proactive initiatives to detect and deter waste, fraud, and abuse relating to federal tax administration. As part of its statutory mission, TIGTA also responds to threats and attacks against IRS personnel, property and IRS data infrastructure.

In order to focus investigative resources on its primary program areas, TIGTA developed and implemented a performance model to help it achieve the most return-on-investment for IRS, the Treasury Department, and the American taxpayer.



TIGTA Investigative Performance Model

TIGTA administers its investigative programs through 11 field divisions supported by a Headquarters Operations Division; a Technical and Forensic Support Division; and the Strategic Enforcement Division, a specialized computer investigative operation. TIGTA operates a Special Inquiries and Intelligence Division to conduct certain high profile investigations, procurement fraud investigations and to manage a centralized criminal intelligence (counter-terrorism) program.

IRS Employee Integrity

IRS employee integrity is the crux of effective and efficient federal tax administration. IRS employee misconduct weakens the public's trust in the agency and, as a result, impedes effective implementation of the tax laws. Lapses in employee integrity include: bribery; extortion; theft; unauthorized access to and disclosure of confidential taxpayer data; misuse of IRS computer systems; taxpayer abuses; and financial fraud. Additionally, TIGTA promotes employee integrity by conducting proactive and reactive investigations and by administering a program of *Integrity/Fraud Awareness* presentations to IRS employees and the general public. These presentations educate IRS employees and taxpayers on the ways they can help prevent waste, fraud, and abuse in IRS operations and programs. During the current reporting period, TIGTA made 440 *Integrity/Fraud Awareness* presentations to more than 15,000 IRS employees. Since October 1, 2002, TIGTA received 2,271 complaints involving IRS employees.

Examples of IRS Employee Integrity cases are:

IRS Revenue Agent Pled Guilty to Unauthorized Access to Taxpayer Records

Recently, an IRS revenue officer was prosecuted for unauthorized access to taxpayer records contained in the agency's computer system. TIGTA's investigation revealed that the officer made improper accesses to the tax accounts of a friend and a family member. The employee resigned and pled guilty to the violations in January 2003.

IRS Revenue Agent Convicted of Soliciting a $200,000 Bribe

In January 2003, an IRS revenue agent pled guilty to soliciting a $200,000 cash bribe from a corporate attorney to reduce the company's tax liability. The attorney, in cooperation with TIGTA agents, met with the IRS revenue agent who stated he could reduce the company's tax liability from as high as $4 million to $15,000 in exchange for the bribe. TIGTA's Technical Forensic Support Division provided electronic surveillance in support of the case. The revenue agent resigned following arrest.

Two IRS Employees Destroy Records

In December 2002, two IRS employees were indicted for their role in the attempted destruction of IRS records. This investigation began with a citizen contacting IRS to advise that numerous tax returns and other

confidential documents were strewn on a city street. TIGTA agents secured several trash bags filled with current tax returns and taxpayer correspondence that had been removed from an IRS processing center by one of the employees. The other employee placed the bags filled with the documents on the curb to be collected as trash. Both employees were terminated from employment. IRS reviewed over 300 taxpayer accounts and determined the total impact to the applicable taxpayers and the agency was approximately $1.2 million.

$132,000 RECOVERED FROM FORMER IRS EMPLOYEE

In January 2003, a former IRS employee signed an agreement to make restitution to the government in the amount of $132,000 for wages fraudulently received while working at a business he owned rather than at the federal agency. The employee, who falsified his IRS timesheets by failing to take leave for the time spent working at his business, later resigned from IRS.

IRS SPECIAL AGENT SENTENCED FOR BRIBERY

An IRS criminal investigator was sentenced to 30 months imprisonment and a $50,000 fine for accepting a bribe of $6,000 to help a taxpayer defeat IRS' criminal investigation against that taxpayer. In exchange for the bribe, the special agent improperly disclosed grand jury information and tax return information on the target of the investigation. In November 2002, the employee was terminated.

INVESTIGATOR PLEADS GUILTY TO POSSESSING CHILD PORNOGRAPHY ON IRS COMPUTER

In January 2003, a former IRS criminal investigator pled guilty to possessing child pornography on an office computer. The employee's computer had approximately 9,000 digitized photographic still images and approximately 35 digitized photographic movies of child pornography. The employee resigned from IRS in October 2002.

IRS EMPLOYEE AND INFRASTRUCTURE SECURITY

Employee and Infrastructure Security is a critical element in protecting the Treasury Department's ability to administer the *I.R.C.* The IRS remains the cornerstone of the federal budget, processing more than 228 million tax returns and collecting more than $2.1 trillion annually to fund the government.

Threats and assaults against IRS employees, facilities and data infrastructure impede Treasury from effective tax administration. Historically, IRS is a target of those who advocate violence against the federal government. There have been numerous attempts to destroy its buildings by various means. Since TIGTA has the statutory responsibility

to investigate activities involving threats to IRS personnel and facilities, TIGTA dedicates significant resources to deterring, detecting and investigating any threats from both foreign and domestic sources. In an October 2002 case, TIGTA arrested a taxpayer who mailed a letter threatening an IRS employee with deadly force if a tax lien placed on the taxpayer's property was not released. This individual was convicted for mailing a threatening communication to IRS.

This commitment against threats and assaults includes the operation of a nationwide criminal intelligence program. This Headquarters-directed initiative is designed to coordinate the agency's investigation of threats, assaults and terrorist acts targeted at IRS. The criminal intelligence unit also coordinates TIGTA's participation in 57 FBI Joint Terrorism Task Force operations. Through the criminal intelligence program, TIGTA also assists IRS in developing and enhancing security protocol at all IRS facilities in an effort to deter and prevent terrorist attacks and ensure IRS employee safety and infrastructure integrity.

In the past six months, TIGTA has completed 400 investigations of verbal or written threats and assaults directed at the IRS and its employees. Over the last few years, the types of threats to which IRS employees are exposed have expanded to include incidents such as the receipt of alleged chemical and biological threats in the mail. Since the terrorist attacks of September 11, 2001, TIGTA has investigated a total of 70 cases involving suspected biological or chemical material received or identified at IRS facilities. TIGTA vigorously investigates hoax mailings. To date, none of these incidents have involved life-threatening substances, although each caused significant and costly disruption to IRS operations.

Increasingly, anti-government groups are attempting to undermine the tax system by exploiting cyber-tools as weapons. Through the operation of its Strategic Enforcement Division (SED), TIGTA works with IRS to utilize a cadre of dedicated computer specialists and criminal investigators who rapidly respond to computer intrusion incidents, investigate IRS network problems when indicators of intentional disruption are present, and conduct recurring systems penetration tests to detect new vulnerabilities. Since October 1, 2002, TIGTA SED special agents and computer specialists have conducted 9 computer security reviews/tests and 18 criminal investigations in areas where security potentially could be compromised.

Examples of Employee and Infrastructure Security cases are:

TRIAL DEFENDANT ASSAULTS IRS AGENT AND DOJ PROSECUTOR

In January 2003, a defendant on trial for tax evasion and conspiracy to defraud the U.S. government was sentenced to 14 months imprisonment. An IRS Criminal Investigation special agent reported that the defendant assaulted him and a Department of Justice prosecutor in the courtroom. On the basis of TIGTA's investigation of the two assaults, following the trial and conviction, a judge revoked the assaulting defendant's supervised release.

TAXPAYER SENTENCED FOR THREATENING A GUNFIGHT

In October 2002, a taxpayer was sentenced to 30 days custody as a condition of a two-year term of probation for making threats against IRS. In April 2002, an IRS revenue officer reported to TIGTA the receipt of a tax form from a taxpayer containing threats of a gunfight if anybody tried to seize his property. The taxpayer was subsequently indicted and found guilty of corrupt interference of a government official. Special probation conditions include compliance with the money owed to IRS, filing of all back tax returns to IRS, no possession of firearms, and 200 hours of community service.

TIGTA ASSESSES VULNERABILITY TO "MS-SQL SLAMMER" WORM

On January 25, 2003, numerous sources reported on the Internet a dramatic increase in hostile network traffic. Within hours the traffic caused a significant slowing throughout the Internet. The cause was identified as a self-replicating worm dubbed "MS-SQL Slammer," which took advantage of a known vulnerability in Microsoft SQL servers. Within five hours, TIGTA SED agents initiated a vulnerability assessment of IRS' network to identify Microsoft SQL servers vulnerable to the virus. Several systems were identified and the results were provided to IRS Office of Cyber Security (CSIRC) for immediate action. Subsequently, CSIRC identified numerous vulnerable unpatched servers, and system owners were instructed to apply the appropriate patches to their servers. This coordinated effort resulted in protection of IRS systems as the Slammer worm did not enter the agency's enterprise network.

TIGTA PROTECTS IRS NETWORK FROM "W32 BUGBEAR" VIRUS

On October 7, 2002, TIGTA SED agents completed a network scan of IRS' enterprise network to determine if it was compromised by the "W32 Bugbear" virus, a Microsoft Outlook mass-mailing worm that had the capability of creating a backdoor vulnerability to the infected computer. Additionally, it had the insidious capability of terminating or disabling the detection and containment processes of various anti-virus programs. The SED scan identified several computer systems potentially vulnerable to the "W32 Bugbear" virus. A list of the potentially vulnerable systems was provided to CSIRC so that IRS computer systems could be protected from this external attack. CSIRC subsequently confirmed that this virus infected no IRS systems.

External Attempts to Corrupt Tax Administration

TIGTA is dedicated to investigating external attempts to corrupt or interfere with the administration of Internal Revenue laws. External attempts to corrupt tax administration include bribes offered by taxpayers to compromise IRS employees; the manipulation of IRS systems and programs through the use of bogus liens and IRS financial reporting instruments; identity theft; tax refund theft; and other crimes that use IRS as a means to perpetrate criminal activity. External attempts to corrupt tax administration inhibit the Treasury's ability to collect revenue and undermine the public's confidence in fair and effective tax administration. TIGTA conducted investigations of schemes involving Employer Identification Numbers (EIN); bribery of IRS officials; the use of fraudulent IRS documentation; impersonation of IRS officials; and theft of taxpayer refunds during this reporting period.

With IRS increasing its effort to collect taxes from delinquent taxpayers, as well as taxpayers with offshore bank accounts, the environment is ripe for increased attempts to bribe IRS employees involved in those collection activities. Since October 1, 2002, TIGTA has initiated 31 investigations into bribery by non-IRS employees. In addition, TIGTA conducted 232 investigations of attempts to manipulate or corrupt IRS systems and operations, and 600 investigations into fraud and other related activities.

To further its ability to investigate criminal acts designed to corrupt tax administration, TIGTA operates a Technical and Forensic Support Division composed of the Technical Services Section and a Forensic Science Laboratory. Both Technical Services and the Laboratory provide technical expertise throughout the development and adjudication process of investigations. During this reporting period, the Forensic Science Laboratory conducted 183 forensic examinations while the Technical Services Section provided electronic and surveillance support in 147 investigations.

Examples of External Attempts to Corrupt Tax Administration cases are:

Individual Sentenced In EIN Scheme

In January 2003, an identity theft scheme promoter was sentenced to 32 months in prison and ordered to pay approximately $306,000 in restitution for conspiracy, identity theft and social security fraud. The promoter assisted individuals with unfavorable credit ratings in obtaining IRS issued Employer Identification Numbers (EIN), and in applying for government-insured home mortgage loans using the EINs as SSNs. The promoter also prepared fictitious federal income tax returns for submission with the loan applications. Twenty-three other individuals

were charged for their roles in the scheme, including a realtor who was involved in the fraudulent home purchases.

IDENTITY THEFT RING NETS $7 MILLION IN FRAUDULENT TAX REFUNDS

In February 2003, a criminal complaint charged 19 individuals with conspiracy to file false claims against the United States. The investigation began when bank officials notified TIGTA that tax refund checks were deposited in a tax preparer's bank account. TIGTA agents subsequently arrested the tax preparer for the theft and negotiation of stolen IRS income tax refund checks. Further investigation disclosed the tax preparer, with co-conspirators, engaged in the filing of numerous fraudulent income tax returns using stolen SSNs, resulting in millions of dollars in IRS refunds. In October 2002, the tax preparer pled guilty to conspiracy to file false claims against the United States.

PAIR GUILTY IN FICTITIOUS OBLIGATIONS SCHEME

In December 2002, two individuals were found guilty of conspiring to negotiate fictitious "Notes" as payment for tax liabilities. This investigation began when an IRS employee contacted TIGTA agents after being approached by two taxpayers presenting $150,000 in purported "Notes" to pay off a tax liability. One taxpayer, an insurance salesman, acknowledged printing these notes on a personal computer, and the other taxpayer claimed to be a "commercial attorney" involved in the production of the documents. IRS Criminal Investigation was conducting an investigation relating to numerous similar fictitious obligations being mailed to IRS Service Centers as payment for taxes. In June 2001, the insurance salesman returned to the IRS office and attempted to pay a different taxpayer's $20,000 tax liability using the "Notes." He admitted receiving $5,000 from the taxpayer in exchange for the $20,000 in "Notes." In September 2002, a federal grand jury issued indictments charging the insurance salesman with 21 counts of conspiracy, unlawful manufacture and passing of fictitious obligations, and mail fraud. The "commercial attorney" was charged with 15 counts of conspiracy and unlawful manufacture and passing of fictitious obligations. A federal grand jury found the pair guilty in December 2002.

Fictitious Note

Congressional Testimony

In addition to TIGTA's audit and investigative work, the Acting IG, along with the Inspector General for Treasury, testified on February 21, 2003 before the U. S. Congress, House Appropriations Transportation, Treasury, and Independent Agencies Subcommittee. The purpose of the hearing was to discuss the potential consolidation of these two Inspector General offices and challenges facing IRS.

Kudos

Scott Wilson

Each year the President recognizes a small percentage of the Senior Executive Service for their ability to lead a Government that delivers great service, achieves results and continually pushes to get the job done more effectively and efficiently. In 2002, TIGTA's former Assistant Inspector General for Audit (Information Systems), Scott Wilson, was awarded the Presidential Rank Award for Meritorious Service for his achievements within the Audit and Information Systems community.

Appendix I – Audit Statistical Reports

Audit Reports With Questioned Costs

One audit report with questioned costs was issued during this semiannual reporting period.[1]

The term "questioned cost" means a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation ("unsupported cost"); or (3) a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable. The term "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 (10/1/02 – 3/31/03) Report Category	Number of Reports	Questioned Costs[2] (In Thousands)	Unsupported Costs (In Thousands)
For which no management decision had been made by the beginning of the reporting period	3	$1,675	$0
Which were issued during the reporting period	1	$4,719	$0
Subtotals (Item 1 plus Item 2)	4	$6,394	$0
For which a management decision was made during the reporting period			
- Dollar value of disallowed costs	3	$1,118	$0
- Dollar value of costs not disallowed	1	$3	$0
For which no management decision had been made by the end of the reporting period (Item 3 minus Item 4)	2	$5,273	$0
For which no management decision was made within six months of report issuance	1	$573	$0

[1] See Appendix IV for identification of audit reports involved.
[2] "Questioned Costs" include "Unsupported Costs."

Reports With Recommendations That Funds Be Put to Better Use

Six reports with recommendations that funds be put to better use were issued during this semiannual reporting period.[1]

The term "recommendation that funds be put to better use" means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements; or (5) any other savings which are specifically identified. The term "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 concluded to be necessary.

Reports With Recommendations That Funds Be Put to Better Use (10/1/02 – 3/31/02) Report Category	**Number of Reports**	**Amount (In Thousands)**
For which no management decision has been made by the beginning of the reporting period	0	$0
Which were issued during the reporting period	6	$38,597
Subtotals (Item 1 plus Item 2)	6	$38,597
For which a management decision was made during the reporting period		
Dollar value of recommendations that were agreed to by management		
- Based on proposed management action	2	$307
- Based on proposed legislative action	1	$3,000
Dollar value of recommendations that were not agreed to by management	2	$33,050
For which no management decision has been made by the end of the reporting period (Item 3 minus Item 4)	1	$2,240
For which no management decision was made within six months of issuance	0	0

[1] See Appendix IV for identification of audit reports involved.

Reports With Additional Quantifiable Impact on Tax Administration

In addition to questioned costs and funds put to better use, the Office of Audit has identified additional measures that demonstrate the value of audit recommendations on tax administration and business operations. These issues are of interest to the IRS and Treasury executives, the Congress, and the taxpaying public, and are expressed in quantifiable terms to provide further insights to the value and potential impact of the Office of Audit's products and services. Including this information also advances adherence to the intent and spirit of GPRA.

Definitions of these additional measures are:

- **Taxpayer Rights and Entitlements at Risk:** The protection of due process (rights) that is granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise in the performance of 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, relating to instances when taxpayers have a legitimate assertion to overpayments of tax.

- **Reduction of Burden on Taxpayers:** Decreases by individuals or businesses in the need for, frequency of, or time spent on contacts, record keeping, preparation, or costs to comply with tax laws, regulations, and IRS policies and procedures.

- **Increased Revenue:** Assessment or collection of additional taxes.

- **Revenue Protection:** Proper denial of claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system.

- **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).

- **Protection of Resources:** Safeguarding human and capital assets, used by or in the custody of the organization, from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation. This measure will often be expressed as a value of the entity or program affected by the issue(s) described in the audit report.

- **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.

Reports With Additional Quantifiable Impact on Tax Administration (continued)

The number of taxpayer accounts and dollar values shown in this 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 impacted from the dates of implementation. Also, a report may have issues that impact more than one outcome measure category.

Reports With Additional Quantifiable Impact on Tax Administration (10/1/02 – 3/31/03) Outcome Measure Category	Number of Reports in Category[1]	Number of Taxpayer Accounts	Number of Hours	Dollar Value (In Thousands)	Other[4]
Taxpayer Rights and Entitlements at Risk	7	1,462,157[2]		$25,844	[5]
Reduction of Burden on Taxpayers	4	5,900,199		$312,700	[6]
Increased Revenue	4	1,550		$11,456[3]	
Revenue Protection	1			$1,343	
Taxpayer Privacy and Security	2				[7]
Protection of Resources	0				
Reliability of Management Information	4	367		$339	[8]

[1] See Appendix IV for identification of audit reports involved.
[2] One report (Reference No. 2003-10-077), in which the Failure to Pay Penalty was not always reduced as appropriate or calculated accurately and consistently for 1,460,914 accounts, could include multiple accounts for some taxpayers.
[3] In one report (Reference No. 2003-30-041) IRS management agreed with the recommendations, but not with the revenue impact of $9.8 million.
[4] Some reports contained "Other" quantifiable impacts besides the number of taxpayer accounts, number of hours, and dollar value. These outcome measures are described in the footnotes, below.
[5] Other measures of taxpayer rights and entitlements consist of 4,610 returns in which penalties should not be assessed when interest is waived, 14,695 Notices of Federal Liens with potential violations of taxpayer rights, and 11,530 tax return periods in which there were unnecessary delays in resolving tax accounts or issuing legitimate refunds.
[6] Other measures of taxpayer burden, consisting of 16% of questions, asked via the Internet, did not receive a response.
[7] Other measures of taxpayer privacy and security consist of 1.1 million improper disclosures of taxpayer identification numbers and 2,166 contractors not in the Security Entry Tracking System.
[8] Other measures of reliability of information consist of 27 budget transfers, totaling $12.7 million, processed without evidence of managerial approval.

Prior Period Reports

During this reporting period, the IRS did not provide TIGTA with the value of questioned costs for any reports issued before October 1, 2002, for which the amount of questioned costs could not be determined at the time the reports were issued.

Appendix II – Investigations Statistical Reports

Investigative Results
October 1, 2002 – March 31, 2003

Investigations Opened and Closed	
Total Investigations Opened	2,487
Total Investigations Closed	2,489

Financial Accomplishments	
Embezzlement/Theft Funds Recovered	$8,003,916
Court Ordered Fines, Penalties and Restitution	$8,297,349
Out-of-Court Settlements	$0

Investigative Results
October 1, 2002 – March 31, 2003 (continued)

Status of Closed Criminal Investigations			
Criminal Referrals[1]	**Employee**	**Non-Employee**	**TOTAL**
Referred – Accepted for Prosecution	24	233	257
Referred – Declined for Prosecution	360	395	755
Referred - Pending Prosecution Decision	35	148	183
TOTAL CRIMINAL REFERRALS	**419**	**776**	**1,195**
No Referrals	**683**	**727**	**1,410**

[1] Criminal referrals include both federal and state dispositions.

Criminal Dispositions[2]			
	Employee	**Non-Employee**	**TOTAL**
Guilty	20	88	108
Nolo-Contendere	1	0	1
Pre-trial Diversion	3	13	16
Deferred Prosecution[3]	0	1	1
Not Guilty	0	0	0
Dismissed[4]	4	5	9
TOTAL CRIMINAL DISPOSITIONS	**28**	**107**	**135**

[2] Final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table.
[3] Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon 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.
[4] Court dismissed charges.

Investigative Results
October 1, 2002 – March 31, 2003 (continued)

Administrative Disposition on Closed TIGTA Investigations[5]	
Removed, Terminated or Other	123
Suspended/Reduction in Grade	71
Oral or Written Reprimand/Admonishment	123
Closed – No Action Taken	245
Clearance Letter Issued	136
Employee Resigned Prior to Adjudication	41
TOTAL ADMINISTRATIVE DISPOSITIONS	**739**

[5] Final administrative dispositions during the reporting period. This data may pertain to investigations referred administratively in prior reporting periods and does not necessarily relate to the investigations closed in the Investigations Open and Closed table.

Investigative Results
October 1, 2002 – March 31, 2003 (continued)

The following tables summarize the number of complaints received by TIGTA and the status of the complaints.

Complaints/Allegations Received by TIGTA	
Complaints Against IRS Employees	2,271
Complaints Against Non-Employees	1,726
Number of Complaints/Allegations	3,997

Status of Complaints/Allegations Received by TIGTA	
Investigation Initiated	1,673
In Process Within TIGTA[6]	174
Referred to the IRS for Action	236
Referred to the IRS for Information Only	1,011
Referred to a Non-IRS Entity[7]	19
Closed With No Referral	821
Closed With All Actions Completed	63
TOTAL COMPLAINTS	**3,997**

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

Note: IRS made 59 referrals to TIGTA that would more appropriately be handled by IRS and, therefore, were returned to IRS. These are not included in the total complaints shown above.

Allegations of Misconduct Against IRS Employees

The following three tables consist of allegations of misconduct against individual IRS employees, which were recorded, in the IRS Automated Labor and Employee Relations Tracking System (ALERTS). Employee misconduct cases investigated by TIGTA have been extracted and reported on the previous two pages. IRS management conducted the inquiries into the cases reflected in these tables.

Allegations of Employee Misconduct Investigated by IRS Management			
	Case Type		
	Administrative [8]	Employee Tax Matter [9]	Total
Inventory on October 1, 2002	709	885	1,594
Add: Cases Received	1,647	1,156	2,803
Less: Cases Closed	(1,615)	(1,092)	(2,707)
Duplicates	(15)	(146)	(161)
Not Misconduct	(14)	(0)	(14)
Total Closures	(1,644)	(1,238)	(2,882)
Inventory on March 31, 2003	712	803	1,515

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

[9] Employee Tax Matter - Any conduct matter that becomes a matter of official interest involving an employee's tax compliance.

Allegations of Misconduct Against IRS Employees (continued)

Disposition of Employee Misconduct Cases Investigated by IRS Management			
Disposition		**Employee Tax Matter**	**Total**
Removal	73	6	79
Separation of Probationary Employees	228	4	232
Separation of Temporary Employees	16	2	18
Resignation/Retirement	89	27	116
Suspensions	136	31	167
Reprimands	262	316	578
Counseling	364	477	841
Alternative Discipline	55	24	79
Clearance	111	8	119
Closed Without Action	245	188	433
Forwarded to TIGTA	10	0	10
Not Otherwise Coded	26	9	35
TOTAL	**1,615**	**1,092**	**2,707**

Allegations of Misconduct Against IRS Employees (continued)

IRS Summary of Substantiated *§ 1203* Allegations		
***§ 1203* Violation**	**Removals**	**Penalty Mitigated**
Seizure Without Approval	0	0
False Statement Under Oath	0	0
Constitutional & Civil Rights Issues	0	0
Falsifying or Destroying Records	0	0
Assault or Battery	0	0
Retaliate or Harass	0	0
Misuse of 6103	0	0
Failure to File Federal Tax Return	5	22
Understatement of Federal Tax Liability	4	12
Threat to Audit for Personal Gain	1	0
TOTAL	**10**	**34**

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

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

Appendix III – Statistical Reports – Others

Audit Reports With Significant Unimplemented Corrective Actions

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

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
093602	April 1999		***The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits***
		04/15/03	F-1, R-3, P-2. Require a separation of duties among auditors who identify Midwest Automated Compliance System (MACS) returns with potential tax changes, auditors who select MACS returns to be audited, and auditors who conduct the examinations.
		10/01/05	F-1, R-4, P-2. Ensure that all MACS data discs forwarded from the MACS Development Center to district offices are properly accounted for and secured.
		05/15/03	F-2, R-4, P-1. Clarify the Internal Revenue Manual to provide specific guidance for conducting correspondence audits in district office settings.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
093009	June 1999		***Review of the Electronic Fraud Detection System***
		01/01/04	F-2, R-1, P-3. Program the Electronic Fraud Detection System (EFDS) application audit trail to record all accesses to taxpayer data (including access to prior year records, records assigned to specific tax examiners, and records assigned to other service center sites).
		01/01/04	F-2, R-2, P-3. Design an audit trail application to record access to taxpayer data through secondary sources such as the database administrator, system query tools, or contract vendors.
		01/01/04	F-3, R-1, P-3. The EFDS Project Office should work with EFDS developers to ensure that the following programming changes are made: The EFDS application audit reports should be changed to include a date range field and service center site field where applicable.
		01/01/04	F-3, R-4, P-3. An assessment should be completed and take into consideration the audit trail issues referred to in the Memorandum of Understanding to improve the usefulness of the EFDS application audit trail.
1999-20-063	August 1999		***The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved***
		05/01/03	F-2, R-1, P-1. Standardize control settings for files common to the Unisys 2200 production mainframes.
2000-30-015	December 1999		***Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers***
		01/01/04	F-2, R-1, P-1. Expand the current Federal Tax Deposits alert reengineering effort to re-evaluate the cost effectiveness of the Program.
2000-10-033	February 2000		***The Internal Revenue Service Can Further Reduce the Burden on Taxpayers Who Disagree With Proposed Assessments***
		06/15/03	F-1, R-1, P-1. Send letters of proposed changes (30-Day Report) via certified mail, with return receipt requested, when taxpayers do not respond to the initial contact letter.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2000-30-059	March 2000		***The Internal Revenue Service Can Improve the Estate Tax Collection Process***
		07/15/03	F-1, R-1, P-1. Assign the responsibility for determining whether a bond or tax lien should be secured to the service center employees who process the installment agreements, instead of to the district offices.
		07/01/03	F-2, R-2, P-1. Develop procedures to periodically reconcile tax liens on the Automated Lien System (ALS) with information shown on the taxpayer accounts.
		11/01/03	F-2, R-3, P-1. Clarify procedures to employees that all estate tax liens should be recorded on the ALS.
		03/15/04	F-3, R-4, P-1. Coordinate to develop a procedure to identify accounts with multiple assessments and collection statute dates to ensure partial abatements occur when the earliest Collection Statute Expiration Date is reached.
2000-20-094	June 2000		***A Comprehensive Program for Preventing and Detecting Computer Viruses Is Needed***
		06/01/03	F-2, R-1, P-1. Develop and implement IRS-wide procedures detailing the frequency and steps to be followed for reliably updating anti-virus software on both networked and portable notebook computers.
		01/02/04	F-2, R-2, P-1. Establish controls for ensuring all updates have been successfully accomplished.
		01/01/04	F-3, R-1, P-1. Develop a system for gathering information to help analyze and monitor the effectiveness of the program's virus detection and prevention activities.
2000-30-120	August 2000		***Expanding the Electronic Tax Law Assistance Program***
		04/15/04	F-1, R-1, P-1. To meet its Electronic Tax Administration goals, the IRS needs to redesign the Electronic Tax Law Assistance (ETLA) program to leverage technology that will provide enhanced access to tax information, maximize efficiency, and improve electronic customer service.
		10/01/03	F-2, R-1, P-1. To effectively administer the rapid growth of taxpayer demand, economically use resources, and design future enhancements of the program, IRS needs to fully commit to the ETLA program by converting it from a long-term research project to a fully supported independent function.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2000-30-130	September 2000		***Opportunities Exist to Enhance the International Field Assistance Specialization Program***
		10/01/03	F-2, R-1, P-1. Improve the management information system by linking the International Field Assistance Specialization Program (IFASP) indicator to specific issues listed in the International Case Management System.
		06/01/03	F-2, R-2, P-2. Ensure international examiners gain greater access to the IRS' Intranet so that the IFASP can accumulate and disseminate more information electronically, including an electronic referral form for IFASP assistance.
2000-30-154	September 2000		***Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File***
		01/01/04	F-1, R-1, P-1. Require that all balance due notices generated for gift tax accounts be reviewed. Tax examiners should be instructed to review the taxpayers' corresponding individual income tax and gift tax accounts to determine if the taxpayers' gift tax payments and extensions were correctly processed.
2000-30-162	September 2000		***The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations***
		07/01/03	F-1, R-2, P-1. Provide additional computer programming enhancements to improve the value of litigation transcripts.
		P-1: 07/01/03 P-2: 08/15/03	F-2, R-1, P-1, P-2. Request that the Automated Insolvency System be reprogrammed so that the actual receipt date of the case can be input into the system to provide management with more accurate data on timeliness of input of new case information.
		P-1: 07/01/03 P-2: 08/15/03	F-2, R-2, P-1, P-2. Ensure that all employees review the Potentially Invalid Taxpayer report and resolve all cases promptly to ensure timely posting of the bankruptcy to the taxpayer's account.
2001-30-014	November 2000		***The Internal Revenue Service Does Not Effectively Use the Trust Fund Recovery Penalty as a Collection Enforcement Tool***
		12/15/03	F-1, R-5, P-1. Make programming changes to the Automated Trust Fund Recovery System to ensure that delinquent tax returns are addressed when making trust fund recovery penalty calculations.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2001-10-027	January 2001		***Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program***
		03/31/03	F-1, R-1, P-1. Upgrade the automated case management system to provide more timely and accurate data on case activities and the use of program resources.
2001-20-043	February 2001		***Electronic Signature Initiatives Could Be Better Defined and Evaluated***
		10/15/03	F-1, R-1, P-1. Finalize IRS requirements for the use of Personal Identification Numbers as alternative signatures for electronically filed returns based on evolving guidance and the draft IRS authentication security policy and implementation guide.
		11/15/03	F-1, R-2, P-1. Ensure that all operational alternative signature initiatives comply with the requirements.
2001-30-052	March 2001		***Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income***
		01/01/04	F-1, R-1, P-1. Ensure the prior recommendations are implemented. Establishing a formal program with goals, objectives, processes and measures could help ensure that sufficient management attention is devoted to improving the use of the Routine Exchange of Information Program for compliance.
		01/01/04	F-2, R-1, P-1. Identify the highest risk foreign sourced income documents and use them to coordinate with tax treaty partners to positively identify the U.S. taxpayers involved.
		P-1: 01/01/07 P-2: 01/01/07	F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2001-30-099	June 2001		***Management Advisory Report: The Internal Revenue Service Could Reduce the Number of Business Tax Returns Destroyed Because of Missing Information***
		P-2: 07/01/03 P-3: 07/01/03	F-1, R-1, P-2, P-3. Make necessary modifications to tax forms and instructions to ensure taxpayers understand that their names, addresses, and taxpayer identification numbers are required on both their tax forms and payment vouchers.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2001-10-103	August 2001		***Improvements Are Needed to Comply With Legal and Procedural Requirements for Collection Statute Extensions and Installment Agreements***
		05/15/03	F-2, R-1, P-1. Develop a comprehensive plan for implementing the provisions of RRA 98 § 3461(c).
		07/01/03	F-4, R-1, P-1. Provide training to applicable IRS employees and managers on the requirements and the method to compute installment agreements and collection statute extensions, consistent with the law and IRS policy and procedures.
2001-20-146	August 2001		***The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act***
		08/01/03	F-1, R-1, P-1. Prepare an overall strategy, plan and schedule to bring the IRS in full compliance with the *Clinger-Cohen Act*.
2001-30-132	August 2001		***Significant Tax Revenue May Be Lost Due to Inaccurate Reporting of Taxpayer Identification Numbers for Independent Contractors***
		07/01/03	F-2, R-1, P-1. Explore opportunities to supplement the IRS' future Internet-based Taxpayer Identification Number (TIN) confirmation program with an automated telephone-based TIN confirmation process for those payers who do not have Internet access.
2001-10-147	September 2001		***Compliance with Certain Taxpayer Rights Provisions Contained in the Internal Revenue Service Restructuring and Reform Act of 1998 Could Be Improved***
		07/01/03	F-1, R-2, P-1. Complete the request for programming changes for the Integrated Data Retrieval System, Automated Collection System, and Integrated Collection System to print detailed interest and penalty notices.
2002-30-042	December 2001		***The Internal Revenue Service Has Made Some Progress, but Significant Improvements Are Still Needed to Reduce Errors in Manual Interest Calculations***
		05/01/03	F-1, R-2, P-1. Establish a national quality review process that includes all restricted interest cases.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2002-10-009	January 2002		***GPRA: Criminal Investigation Can Improve Its Performance Measures to Better Account for Its Results***
		10/01/03	F-2, R-1, P-1. Establish a process by which the Criminal Investigation Management Information System data will be verified and validated.
		03/01/03	F-2, R-2, P-1. Ensure that audit trail requirements are met and documented, and that an Information System Security Officer is assigned to review audit trail data.
2002-30-050	February 2002		***Significant Efforts Have Been Made to Combat Abusive Trusts, but Additional Improvements Are Needed to Ensure Fairness and Compliance Objectives Are Achieved***
		03/01/03	F-2, R-1, P-1. Ensure the Abusive Trust Program consistently applies the accuracy-related penalty in accordance with IRS policy, in order to help ensure fair and equitable taxpayer treatment.
		02/01/03	F-2, R-2, P-1. Provide examiners with formal guidance on the appropriate application of the accuracy-related penalty, in order to help ensure its consistent application.
		10/01/03	F-4, R-1, P-1. Develop a system to capture the results of *U.S. Income Tax Returns for Estates and Trusts* (Form 1041) examinations that would provide management with information on emerging abusive trust issues, further noncompliance and allocate resources to maximize audit results.
2002-30-062	March 2002		***The Internal Revenue Service Continues to Owe Millions of Dollars in Interest to Taxpayers with Frozen Refunds***
		01/01/04	F-1, R-1, P-1. Modify the IRS' computer system to systemically release the newly established Million Dollar Freeze for credit balances that fall below the $10 million threshold.
		P-1: 01/01/04 P-2: 01/01/04	F-1, R-2, P-1, P-2. Establish indicators on key computer screens and generate periodic notices as alerts for employees to review accounts with Million Dollar Freeze and take appropriate resolution actions.
		P-1: 03/01/04 P-2: 03/15/04	F-2, R-1, P-1, P-2. Coordinate efforts to provide updated training for employees that manually initiate refunds.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2002-10-078	March 2002		***The Internal Revenue Service's Levy Process Can Be Improved to Ensure Compliance With the Internal Revenue Code***
		07/01/03	F-1, R-1, P-2. Take additional actions to ensure that open levies are identified and released as appropriate when Automated Collection System (ACS) personnel close a case Currently Not Collectible (CNC) Hardship.
		07/01/03	F-1, R-2, P-1. Ensure that revenue officers review available information to properly identify levies issued by ACS personnel and ensure the levies are appropriately released prior to closing a case CNC (Hardship).
		07/01/03	F-1, R-3, P-2. Before approving a CNC (Hardship) case closure, the case files should be reviewed to ensure levies are released, if appropriate, in compliance with the Internal Revenue Code. The revenue officer should document in the case history the reason why a levy was closed rather than released.
		07/01/03	F-2, R-2, P-1. Ensure that a hardship determination is made before approving cases closed CNC.
2002-30-125	July 2002		***The Internal Revenue Service Does Not Always Address Subchapter S Corporation Officer Compensation During Examinations***
		06/15/03	F-1, R-1, P-1. Provide technical guidance and resources (such as software) to field personnel to aid in determining reasonable officer compensation.
		02/01/04	F-2, R-1, P-1. Submit a Request for Information Services (RIS) that would require the corporate distributions on the Schedule M-2 to be input to the IRS' computer system during returns processing, and therefore available to the IRS Midwest Automated Compliance System (MACS) database.
		03/01/03	F-3, R-1, P-1. Submit a RIS to existing (and/or future) information systems (such as Examination Operational Database) to identify officer compensation-related adjustment assessments made to S Corporation employment tax accounts.
		02/01/04	F-4, R-1, P-1. Establish consistent materials for educating and informing taxpayers and representatives of their S Corporation officer compensation tax obligations.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2002-30-141	July 2002		***The Internal Revenue Service Successfully Processed Schedules K-1 for Its Matching Program, However, Tax Form Changes Would Reduce Unnecessary Notices to Taxpayers***
		10/01/03	F-3, R-1, P-1. Make changes to the *U.S. Individual Income Tax Return, Supplemental Income and Loss* (Form 1040, Schedule E) as recommended in the District Office Research and Analysis study. Consideration should be given to classifying and reporting pass through income to facilitate easier comparisons to Schedules K-1 and to make the matching program more effective and less subject to extensive manual screening.
2002-40-144	August 2002		***Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For***
		07/15/03	F-1, R-1, P-1. Perform a physical inventory of all computers included in the IRS' Volunteer Income Tax Assistance/Tax Counseling for the Elderly (VITA/TCE) Program. This inventory should include verification of computers presently recorded on the Information Technology Asset Management System (ITAMS) as well as identification of computers in the VITA/TCE Program that are not yet recorded on ITAMS.
		06/15/03	F-1, R-4, P-1. Develop, distribute, and implement procedures to ensure that only authorized software is loaded onto computers used in the IRS' VITA/TCE Program. Included in these procedures should be an immediate assessment of computers previously provided to volunteers to ensure that unauthorized software, if identified, is removed.
		05/15/03	F-1, R-5, P-1. Ensure that prior to loading software not specifically used in tax return preparation a written opinion from IRS Counsel is obtained to ensure that the IRS has the legal authority to provide the software.
		05/15/03	F-1, R-6, P-1. In the long term, pursue legislative changes that would allow IRS to transfer ownership of the computers to the VITA/TCE organizations.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2002-30-156	September 2002		***The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers***
		07/01/04	F-1, R-1, P-1. Ensure that the IRS initiate, as proposed in their response to our memorandum dated February 1, 2002, a regularly scheduled program for proposing penalties for Wage and Tax Statements (Forms W-2) with inaccurate name/Social Security Number combinations.
		07/15/03	F-1, R-2, P-1. Prepare a document describing the objective of the joint IRS/Social Security Administration program for the most egregious non-compliant employers, as well as the tasks, responsibilities, and agreements that are needed between the two agencies to meet the objective.
2002-30-186	September 2002		***The Internal Revenue Service Needs to Simplify Filing Requirements and Clarify Processing Procedures for Small Business Corporate Returns***
		P-1: 01/15/04 P-2: 01/15/04	F-1, R-1, P-1, P-2. Simplify the process of filing election forms and *U.S. Income Tax Returns for an S Corporation* (Form 1120S) for new filers by determining if there are alternatives to make it easier for first-time filers to be granted elections and file their Forms 1120S, and by considering implementing alternatives and seeking modification of the legal requirements, as necessary.
		P-1: 01/15/04 P-2: 01/15/04	F-1, R-2, P-1, P-2. Develop procedures that would improve and simplify the process for approving, recording, and controlling elections and the related notification process to make it easier for taxpayers to file their Forms 1120S.
		01/15/04	F-2, R-1, P-1. Establish procedures for ensuring that IRS records accurately reflect the filing of Forms 1120S once the IRS subsequently verifies that an election was granted. Specific procedures should be developed for converting the Forms 1120 back to the originally intended Forms 1120S.
		01/15/04	F-2, R-2, P-1. Clarify Internal Revenue Manual procedures and assign responsibility for determining and assessing the correct taxes and issuing statutory notices of deficiency for small business corporate returns that could not be processed because the IRS could not verify that valid elections were filed.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2002-10-187	September 2002		***The New Suspension of Interest Provision Is Not Always Calculated Correctly***
		06/01/03	F-1, R-1, P-1. Create a systemic reminder when tax audits are completed that would prompt employees and managers to consider whether the suspension of interest provision applies.
		06/01/03	F-1, R-2, P-1. Incorporate review requirements for the suspension of interest provision in the Examination Quality Review Process system.
		06/01/03	F-2, R-1, P-1. Identify all taxpayers with under assessed interest caused by the original Master File computer programming, regardless of whether or not the interest had been reestablished on the accounts, and zero out any under assessed amounts to prevent burden on future disaster relief taxpayers or other taxpayers in special military conditions.
		06/01/03	F-2, R-2, P-1. Identify disaster relief taxpayers and refund the amounts that were automatically collected on the under assessed interest.
		01/01/04	F-3, R-1, P-1. Submit a request for information services that will change the Master File computer programming for this 1-day discrepancy when calculating suspension of interest.
		01/01/04	F-3, R-2, P-1. Determine the feasibility of an earlier anticipated operational date of the Master File computer programming modification involving weekend and holidays when calculating suspension of interest.
		01/01/04	F-3, R-3, P-1. Identify taxpayers' accounts for Tax Years 1998 and 1999 with disallowed Earned Income Tax Credit amounts that qualified for suspension of interest and reduce the amount of over assessed interest on these accounts.
2002-10-196	September 2002		***Criminal Investigation's Use of Confidential Funds for Undercover Operations Is Appropriate; However, Certain Aspects of Undercover Operations Need Improvement***
		01/01/04	F-1, R-2, P-1. Develop a methodology for determining when IRS employees access tax identifying numbers that are associated with undercover identities and entities.
		10/01/03	F-4, R-1, P-1. Reemphasize the procedures to ensure that operational and financial reviews are timely performed as required, and prescribe the level of detail to be recorded in storefront logs to enhance the usefulness of this document as a monitoring and evaluative tool.

Statistical Reports - Others

- **Access to Information**

  The *Inspector General Act of 1978* requires IGs to report on unreasonable refusals of information available to the agency that relate to programs and operations for which the IG has responsibilities.

  As of March 31, 2003, there were no instances where information or assistance requested by OA was refused.

- **Disputed Audit Recommendations**

  The *Inspector General Act of 1978* requires IGs to provide information on significant management decisions in response to audit recommendations with which the IG disagrees.

  As of March 31, 2003, TIGTA did not issue a report where a significant recommendation was disputed.

- **Revised Management Decisions**

  The *Inspector General Act of 1978* requires IGs to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.

  As of March 31, 2003, no significant management decisions were revised.

- **Audit Reports Issued in the Prior Reporting Period With No Management Response**

  The *Inspector General Act of 1978* requires IGs to provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.

  As of March 31, 2003, there were no prior reports where management's response was not received.

- **Review of Legislation and Regulations**
  The *Inspector General Act of 1978* requires IGs to review existing and proposed legislation and regulations and to make recommendations concerning the impact of such legislation or regulations.

  TIGTA's Office of Chief Counsel reviewed 85 proposed legislation and regulations during the six-month reporting period.

Appendix IV – Audit Products

Audit Products : October 1, 2002 – March 31, 2003

Inspector General Congressional Testimony	
Reference Number	**Report Title**

February, 2003

- 2003-0T-096 *Hearing Before the House Appropriations Transportation, Treasury, and Independent Agencies Subcommittee*

Audit Products	
Reference Number	**Report Title**

October, 2002

- 2003-20-005 *Many Advances Made, But Additional Emphasis Is Needed on Key Initiatives in the Security Services Organization*
- 2003-40-002 *The Internal Revenue Service Needs to Improve Oversight of Remittance Processing Operations*
- 2003-20-004 *Physical Security Can Be Improved to Maximize Protection Against Unauthorized Access and Questionable Mail*
- 2003-30-001 *Significant Efforts Have Been Made to Provide Taxpayers Better Access to the Toll-Free Telephone System, but Additional Improvements Are Needed*
- 2003-20-003 *Continued Emphasis Is Needed to Establish a Mature Intrusion Detection System*
- 2003-20-019 *Computer Security Vulnerabilities Vary Among Internal Revenue Service Offices*
- 2003-40-006 *Improvements to the Questionable Form W-4 Program Are Needed to Determine Program Impact on Taxpayer Compliance*
- 2003-1C-008 *TIRNO-95-D-00062 Incurred Costs Audit for Fiscal Year 2000*

Audit Products	
Reference Number	**Report Title**

October, 2002

- 2003-1C-009 *TIRNO-95-D-0067, TIRNO-95-D-00048, and TIRNO-98-R-00001 Report on Examination of Direct and Indirect Costs and Rates for Fiscal Year Ended December 24, 1999*
- 2003-1C-010 *TIRNO-95-D-00066 and TIRNO-00-D-00020 Incurred Cost Audit for Fiscal Years Ended June 30, 2000 and 2001*
- 2003-1C-011 *TIRNO-95-D-00066 Cumulative Allowable Cost Worksheet Fiscal Years Ended June 30, 1998 and 1999*
- 2003-1C-012 *Audit of Final Voucher TIRNO-95-D-00057 Task Order Number 0008*
- 2003-1C-013 *Audit of Final Voucher TIRNO-95-D-00057, Task Order Number 0009*
- 2003-1C-015 *Audit of Final Voucher TIRNO-95-D-00057, Task Order Number 0015*
- 2003-1C-016 *Audit of Final Voucher TIRNO-95-D-00057, Task Order Number 0021*
- 2003-1C-017 *Audit of Final Voucher TIRNO-95-D-00057, Task Order Number 0023*
- 2003-20-007 *Analysis of Business Systems Modernization Cost, Schedule, and Functionality Performance*
- 2003-40-014 *Response Accuracy Is Higher for the Internet Program Than for Other Options Available to Taxpayers Needing Assistance With Tax Law Questions* (Taxpayer Burden: 16% no-response rate for taxpayers' questions asked via the Internet.)

November, 2002

- 2003-20-018 *Improvements in the Customer Account Data Engine Pilot Plan Need to Be Considered to Help Ensure the Pilot's Success*
- 2003-30-020 *Management Oversight of the Acceptance Agent Program Is Needed to Assure that Individual Taxpayer Identification Numbers Are Properly Issued*
- 2003-40-025 *Taxpayer Rights to Appeal Federal Tax Liens Were Protected*
- 2003-40-023 *Trends in Customer Service in the Taxpayer Assistance Centers Show Procedural and Training Causes for Inaccurate Answers to Tax Law Questions* (Funds Put to Better Use: $277,000; Taxpayer Burden: 126 taxpayers could have received incorrect responses at Taxpayer Assistance Centers.)
- 2003-40-024 *Taxpayers That Visited Taxpayer Assistance Centers in July and August 2002 Received Incorrect Answers to Some Tax Law Questions*

Audit Products	
Reference Number	**Report Title**

December, 2002

- 2003-1C-027 *TIRNO-95-D-00059 Incurred Costs Audit for Fiscal Year 1999*
- 2003-1C-028 *General and Administrative Rate Application Submission*
- 2003-1C-029 *Audit of Final Voucher TIRNO-95-D-00057 Task Order Number IR-96-NO-1014*
- 2003-1C-030 *Audit of Final Voucher TIRNO-95-D-00057, Task Order Number IR-96-NO-0785*
- 2003-1C-032 *Audit of Final Voucher TIRNO-95-D-00057, Task Order Number IR-96-NO-3238*
- 2003-1C-033 *Audit of Final Voucher TIRNO-95-D-00057, Task Order Number IR-96-NO-4701*
- 2003-30-021 *Continued Progress Is Needed to Improve the Timeliness of Providing Legal Advice in Large and Mid-Size Business Division Examinations*
- 2003-20-026 *The Internal Revenue Service Has Made Substantial Progress in Its Business Continuity Program, but Continued Efforts Are Needed*
- 2003-40-034 *The Internal Revenue Service Successfully Planned for and Executed the Rate Reduction Credit Recovery Program*
- 2003-40-037 *Not All Available Information Was Considered When Examining Tax Returns at the Austin Campus During the Fiscal Year 2000 Earned Income Credit Initiative* (Increased Revenue: $10,623; Taxpayer Rights and Entitlements: three taxpayers impacted by the loss of Social Security quarter credits.)
- 2003-40-022 *Improvements Are Needed to Prevent the Potential Disclosure of Confidential Taxpayer Information* (Taxpayer Privacy and Security: 1.1 million Taxpayer Identification Numbers (TIN) improperly transmitted and 210,017 TINs transmitted to private contractors whose facilities were not inspected to insure adequate protection.)
- 2003-1C-036 *Audit of Final Vouchers TIRNO-95-D-00065, Task Order Numbers 0001 and 0021*
- 2003-30-038 *Business Tax Returns Were Successfully Processed in Two Locations in 2002; However, Taxpayers Need More Information on Where to File* (Funds Put to Better Use: $1.19 million.)
- 2003-20-035 *Additional Cost Savings and Increased Productivity in the Print Operation and Computer Support Function Can Be Achieved at the Campus Locations* (Funds Put to Better Use: $2.24 million.)

Audit Products	
Reference Number	**Report Title**

January, 2003

- 2003-40-040 *Taxpayers That Visited Taxpayer Assistance Centers During September and October 2002 Received More Correct Answers to Tax Law Questions Than in Prior Months*
- 2003-30-039 *Improvements to the Electronic Return Originator Monitoring Program Are Needed*
- 2003-30-041 *The Examination Quality Measurement System Program Can Be Enhanced* (Increased Revenue: $9.8 million.)
- 2003-30-042 *The Internal Revenue Service Needs to Be Consistent and Fair When Assessing Interest and Penalties on Employers Who Misclassify Their Employees* (Taxpayer Rights and Entitlements: $11.4 million in over assessed penalties and interest affecting 4,610 tax returns.)
- 2003-30-043 *The Internal Revenue Service Has Made Substantial Progress Towards Recording Calls as Part of the Quality Assurance Monitoring of its Toll-Free Telephone Assistance*
- 2003-30-044 *Actions Are Being Taken to Improve the Automated Collection System, but a More Effective Planning and Management Framework Is Needed*
- 2003-1C-031 *Audit of Final Voucher TIRNO-95-D-00057, Task Order Number IR-95-NO-4282*
- 2003-40-045 *Significant Progress Has Been Made to Provide Interpreter Services to Non-English Speaking Taxpayers in the Taxpayer Assistance Centers, but Improvements Are Needed* (Taxpayer Burden: 61,000 non-English speaking persons that did not have access to Taxpayer Assistance Center over-the-phone interpreter service.)
- 2003-40-046 *Analysis of Statistical Information for Returns With Potentially Unclaimed Additional Child Tax Credit*

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- 2003-10-048 *Significant Progress Has Been Made to Increase the Percentage of Electronic Vendor Payments*
- 2003-20-047 *Progress Has Been Made in Protecting Critical Assets*
- 2003-20-053 *Enhancements to the Internet Refund Project Need to Be Completed to Ensure Planned Benefits to Taxpayers Are Realized*
- 2003-20-056 *Use of Unapproved Wireless Technology Puts Sensitive Data at Risk*

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- 2003-20-064 *Computer Security Weaknesses at State Agencies Put Federal Tax Information at Risk*
- 2003-40-055 *The Internal Revenue Service Has Procedures to Ensure There is Sufficient Trained Staff to Process Individual Income Tax Returns in 2003*
- 2003-1C-050 *Report on Noncompliance With Cost Accounting Standards 403 and 418 Found During Contract Performance*
- 2003-1C-057 *Report on Noncompliance With Cost Accounting Standard 414*
- 2003-40-066 *Fiscal Year 2003 Statutory Review of Compliance With Lien Due Process Procedures* (Taxpayer Rights and Entitlements: 14,695 Notices of Federal Tax Liens with potential legal violations of taxpayers' rights.)
- 2003-20-067 *The Business Systems Modernization Quality Assurance Function Has Established a Solid Set of Policies and Procedures That Can Be Further Enhanced*
- 2003-10-065 *The Exempt Organizations Examination Support Section Accurately and Timely Processed Closed Examinations, but Controls Over Case Receipt Can Be Improved* (Reliability of Information: 288 accounts that were not properly controlled after the examination was completed.)
- 2003-20-049 *Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement* (Increased Revenue: $688,842; Funds Put to Better Use: $30,000; Protection of Resources: $339,040 spent building a database that should have been integrated with another system; Taxpayer Privacy and Security: database does not contain information on 2,166 contractors.)
- 2003-20-070 *Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made* (Reliability of Information: 27 budget transfers, totaling $12.7 million, without evidence of managerial review and/or approval.)

March, 2003

- 2003-1C-058 *Report on Audit of Billing System Internal Controls*
- 2003-1C-059 *Report on Outstanding Estimating System Deficiencies*
- 2003-1C-060 *Report on Audit of Budget and Planning System Internal Controls*

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- 2003-1C-061 *Report on Audit of Proposed Fiscal Year 2001 Direct Labor Forward Pricing Rates, Full Time Accounting Factor, and Escalation Rate*
- 2003-1C-062 *Report on Audit of Timekeeping Practices for Fiscal Year 2000*
- 2003-10-068 *The Internal Revenue Service Should Improve the Management of Its Energy Conservation Program* (Reliability of Information: information that is used to report on compliance with energy conservation requirements is not reliable for the $21 million spent on energy/utility expenses at 11 delegated sites.)
- 2003-20-069 *Improvements in the Measures Program for Information Technology Services Would Further Increase Its Value to Stakeholders*
- 2003-40-072 *Taxpayers That Visited Taxpayer Assistance Centers in November and December 2002 Received Incorrect Answers to Some Tax Law Questions*
- 2003-10-074 *The National Taxpayer Advocate Has Improved the Quality of Casework, but Continued Vigilance Is Needed to Increase Compliance With the Quality Standards*
- 2003-10-076 *Improved Oversight of the Guard Services Contract Is Needed to Ensure Compliance With Contract Terms and Conditions* (Questioned Costs: $4.72 million.*)*
- 2003-30-071 *The Internal Revenue Service Could Reduce the Number of Unnecessary Notices Sent to Taxpayers Regarding Unreported Income From Schedules K-1* (Funds Put to Better Use: $3 million.)
- 2003-30-075 *Efforts to Develop a Successful Collection Contract Support Program Could Be Enhanced*
- 2003-40-073 *Pre-Filing Season Activities to Address Specific Individual Electronic Filing Issues Were Adequately Conducted*
- 2003-40-080 *Terrorist Victims' Tax Relief Refunds Were Accurate, but Some Were Delayed* (Taxpayer Rights and Entitlements: five returns with over-assessed taxes of approximately $60,000.*)*
- 2003-10-054 *The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses* (Reliability of Information: the IRS reported $294.6 million of Unemployment Trust Fund expenses that could not be supported or replicated.)

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- 2003-10-079 *The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan as of December 31, 2002* (Reliability of Information: resources in the amount of $2.1 million included in the Remediation Plan were not verifiable to supporting documentation nor consistently reported.)
- 2003-20-089 *Adhering to Established Development Guidelines Will Help to Ensure the Customer Account Data Engine Meets Expectations*
- 2003-30-083 *Bankruptcy Closing Actions Do Not Always Protect the Federal Government's Interests and Taxpayer Rights* (Increased Revenue: $956,097 affecting 1,550 taxpayers; Taxpayer Rights and Entitlements: 1,187 taxpayers due refunds of $49,009; Taxpayer Burden: 73 taxpayers received unnecessary notices; Reliability of Information: 79 taxpayers who may be in bankruptcy status, but are not listed in the Automated Insolvency System or Public Access to Court Electronic Records system.)
- 2003-40-090 *Fiscal Year 2003 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results*
- 2003-40-091 *Dependent Database Information Is Complete and Examination Cases Are Accurately Scored*
- 2003-10-077 *The Failure to Pay Penalty Is Not Always Calculated or Assessed Correctly* (Taxpayer Rights and Entitlements: 1.46 million taxpayer accounts were over assessed $14.3 million because the Failure to Pay Penalty was either not reduced when taxpayers receive installment agreements or calculated accurately and consistently.)
- 2003-10-088 *Job Series Upgrades Were Proper, but Projected Cost Savings Could Not Be Substantiated*
- 2003-10-081 *Improvements to the Office of Chief Counsel's Published Guidance Process Would Enhance Guidance Provided to Taxpayers and the Internal Revenue Service*
- 2003-10-093 *The Equal Employment Opportunity Alternative Dispute Resolution Program Could Be Improved*
- 2003-10-094 *Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud Is Suspected* (Revenue Protection: $1.34 Million; Taxpayer Rights and Entitlements: unnecessary delays in resolving tax accounts or issuing legitimate refunds involving 48 taxpayers for $34,874 and 11,530 tax return periods.)
- 2003-20-082 *Penetration Test of Internal Revenue Service Computer Systems*

Audit Products	
Reference Number	**Report Title**

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- 2003-30-078 *Trends in Compliance Activities Through Fiscal Year 2002*
- 2003-40-092 *Opportunities Exist to Expand the TeleFile Program* (Funds Put to Better Use: $31.86 million; Taxpayer Burden: 5.9 million taxpayers would save time using TeleFile, valued at $312.7 million.)

Appendix V – Statutory TIGTA Reporting Requirements

Eighteen statutory audit reports that dealt with the adequacy and security of IRS technology were issued during this reporting period.[1]

In FY 2003, TIGTA completed its fourth round of statutory reviews that are required annually by *Internal Revenue Service Restructuring and Reform Act of 1998* (*RRA 98)*. The following table reflects the status of the FY 2003 *RRA 98* statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics *I.R.C.* § *7803(d)(1)(A)(i)*	An evaluation of IRS' compliance with restrictions under *Section 1204* of *RRA 98* on the use of enforcement statistics to evaluate IRS employees.	Reference No. 2003-40-090, March 2003: IRS is generally complying with the law. A review of 74 judgmentally sampled enforcement employees' performance and related supervisory documentation prepared between October 1, 2001, and August 31, 2002, revealed no instances of the use of records of tax enforcement results, production quotas, or goals to evaluate employee performance. There was also improvement over the previous year in documenting the evaluation of employees on the fair and equitable treatment of taxpayers. In addition, a review of 21 statistically sampled appropriate supervisors showed the IRS completed the required consolidated office certification memorandums on whether records of tax enforcement results were used in a prohibitive manner.
Restrictions on Directly Contacting Taxpayers *I.R.C.* § *7803(d)(1)(A)(ii)*	An evaluation of IRS' compliance with restrictions under *I.R.C.* § *7521* on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.	Audit fieldwork in progress.

[1] This includes 8 audit reports on IRS information technology, and 10 audit reports on the security of IRS technology. All information technology program reviews are considered statutory based on the *RRA 98* requirement to report annually on the adequacy and security of IRS technology.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Filing of a Notice of Lien *I.R.C.* § *7803(d)(1)(A)(iii)*	An evaluation of IRS' compliance with required procedures under *I.R.C.* § *6320 (Supp. IV 1998)* upon the filing of a notice of lien.	Reference No. 2003-40-066, February 2003: IRS did not completely comply with the law. A review of 300 Notices of Federal Tax Liens (NFTLs) identified 12 NFTLs (4%) where IRS did not comply with all the provisions of *I.R.C. § 6320*. IRS correctly mailed the lien notices; however, it did not mail all of them timely. In addition, for another 16 NFTLs (5%), OA could not determine if IRS complied with the law because it did not provide proof of timely mailing. In 59 (20%) of the 300 NFTLs, IRS did not follow its own internal guidelines when issuing lien notices, including its guidelines for notifying taxpayer representatives and receipting and maintaining certified mail registers.
Levies *I.R.C.* § *7803(d)(1)(A)(iv)*	An evaluation of IRS' compliance with required procedures under *I.R.C* § *6330 (Supp. IV 1998)* regarding levies.	Audit fieldwork completed.
Collection Due Process *I.R.C.* § *7803(d)(1)(A)(iii) and (iv)*	An evaluation of IRS' compliance with required procedures under *I.R.C.* §§ *6320* and *6330 (Supp. IV 1998)* regarding the taxpayers' rights to appeal lien or levy actions.	Audit fieldwork in progress.
Seizures *I.R.C.* § *7803(d)(1)(A)(iv)*	An evaluation of IRS' compliance with required procedures under *Subchapter D of Chapter 64* for seizure of property for collection of taxes.	Discussion draft audit report issued to IRS management.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation *I.R.C.* § *7803(d)(1)(A)(v)*	An evaluation of IRS' compliance with restrictions under *Section 3707* of *RRA 98* on designation of taxpayers.	Draft audit report issued.
Disclosure of Collection Activities With Respect to Joint Returns *I.R.C.* § *7803(d)(1)(B)* *I.R.C.* § *6103(e)(8)*	Review and certify whether or not IRS is complying with *I.R.C.* § *6103(e)(8)* to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	Draft audit report issued.
Taxpayer Complaints *I.R.C.* § *7803(d)(2)(A)*	Requires TIGTA to include in each of its *Semiannual Reports to Congress* the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.	Statistical results on the number of taxpayer complaints received is prepared by TIGTA's Office of Investigations and is reflected in Appendix II. TIGTA's Office of Audit's annual review of IRS management's process for accumulating and reporting taxpayer complaint data is currently in the audit planning process.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996 *I.R.C.* § *7803(d)(1)(G)* *I.R.C.* § *6304* *Section 3466 of RRA 98*	Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of *I.R.C.* § *6304*, including a summary of such actions, and any resulting judgments or awards granted.	Audit fieldwork in progress.
Denial of Requests for Information *I.R.C.* § *7803(d)(1)(F)* *I.R.C.* § *7803(d)(3)(A)*	Include information regarding improper denial of requests for information from IRS, based on a statistically valid sample of the total number of determinations made by 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).*	Audit fieldwork in progress.
Extensions of the Statute of Limitations for Assessment of Tax *I.R.C.* § *7803(d)(1)(C)* *I.R.C.* § *6501*	Include information regarding extensions of the statute of limitations for assessment of tax under *I.R.C. § 6501* and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.	Audit fieldwork in progress.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Adequacy and Security of the Technology of the IRS *I.R.C.* § *7803(d)(1)(D)*	Evaluation of IRS' adequacy and security of its technology.	*Information Technology:* Reference No. 2003-20-007, October 2002 Reference No. 2003-20-018, November 2002 Reference No. 2003-20-035, December 2002 Reference No. 2003-20-053, February 2003 Reference No. 2003-20-067, February 2003 Reference No. 2003-20-070, February 2003 Reference No. 2003-20-069, March 2003 Reference No. 2003-20-089, March 2003 *Security Reviews:* Reference No. 2003-20-003, October 2002 Reference No. 2003-20-004, October 2002 Reference No. 2003-20-005, October 2002 Reference No. 2003-20-019, October 2002 Reference No. 2003-20-026, December 2002 Reference No. 2003-20-064, February 2003 Reference No. 2003-20-047, February 2003 Reference No. 2003-20-049, February 2003 Reference No. 2003-20-056, February 2003 Reference No. 2003-20-082, March 2003

Appendix VI – *Section 1203* Standards

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

Misconduct violations include:

- Willful failure 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, (Pub. L. No. 88-352, 78 Stat. 241 [codified as amended in 42 U.S.C. § 2000e]); Title IX of the Education Amendments of 1972 (20 U.S.C. §§ 1681-1688 [1994]; Age Discrimination in Employment Act of 1967 (29 U.S.C. §§ 621-634 [1994 & Supp. IV 1988]); Age Discrimination Act of 1975 (42 U.S.C. §§ 6101-6107 [1994 & Supp. IV 1998]); Section 501 or 504 of the Rehabilitation Act of 1973 (Pub. L. No. 93-112, 87 Stat. 355 [codified as amended in 29 U.S.C. §§ 701 & 794]);* or *Title I of the Americans with Disabilities Act of 1990 (42 U.S.C. §§ 12111 et seq. [1994 & Supp. IV 1998]).*
- Falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative.
- Committing assault or battery on a taxpayer, taxpayer representative, or other employee of the IRS, but only if there is a criminal conviction, or a final judgment by a court in a civil case, with respect to the assault or battery.
- Violating the *Internal Revenue Code of 1986*, 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 Section 6103 of the *Internal Revenue Code of 1986* for the purpose of concealing information from a Congressional inquiry.
- Willfully failing to file any return of tax required under the *Internal Revenue Code of 1986* 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.

- Threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

- In general, the Commissioner of Internal Revenue may take a personnel action other than employment termination for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner, in his/her sole discretion, may establish a procedure that will be used to determine whether an individual should be referred to the Commissioner for a determination by the Commissioner. Any determination of the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.

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