Treasury Inspector General for Tax Administration

Semiannual Report to Congress

October 1, 2007 through March 31, 2008

THE TREASURY DEPARTMENT
ALBERT GALLATIN

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INSPECTOR GENERAL'S MESSAGE TO CONGRESS

Each year, millions of Americans send a portion of their income to the U.S. Treasury to support the programs of the Federal Government. These taxpayers must be confident that their taxes are fairly and accurately assessed, the tax system is efficient and effective, and that the personal and financial information they disclose is adequately protected. Maintaining that confidence is an essential element of our nation's financial success, especially considering that our country is at war and great economic needs are placing an even greater burden on government resources.

In 1998, Congress created the Treasury Inspector General for Tax Administration (TIGTA) to ensure that the nation's tax system is effectively, efficiently, and fairly administered, and that the Internal Revenue Service (IRS) is held to a high level of accountability. I remain dedicated to upholding this important mission.

I am proud of our accomplishments and pleased to present TIGTA's Semiannual Report to Congress. This report highlights our most notable audit and investigative work conducted from October 1, 2007, to March 31, 2008, and summarizes the statistical results of that work.

During this reporting period, TIGTA completed 83 audits identifying hundreds of thousands of dollars in total cost savings and more than $151 million in increased or protected revenue. TIGTA's Office of Chief Counsel has reviewed and made recommendations on the impact of 175 proposed or existing regulations and laws affecting tax administration.

In October, TIGTA issued its annual assessment of the top ten management challenges confronting the IRS. This report presents a sampling of TIGTA's audit work in each of those challenge areas. I remain especially concerned about helping the IRS meet three of its most critical challenges: the modernization of its aging computer systems, improving taxpayer compliance, and protecting the sensitive personal and financial information of 140 million taxpayers.

The IRS' business modernization program is in its tenth year and remains a long-term challenge for the IRS. Thus far, the program has cost more than $2.5 billion. According to the IRS' original plan, the modernization program should have been past the halfway point this year. While the IRS has improved its project management and contract

oversight, the program remains behind schedule, over budget, and is not delivering as promised. For example, the backbone of the modernization program, the Customer Accounts Data Engine, will ultimately replace the IRS' Individual Master File. The IRS originally planned to complete this replacement in 2005; the estimated date of completion is now 2012.

Ensuring equitable tax compliance among individual taxpayers and businesses is a vital component of tax administration and the IRS' efforts to narrow the nation's estimated $345 billion annual tax gap. Fairness and necessity dictate that everyone and every business – large and small – fully pay the taxes they owe accurately and on time. Nevertheless, the IRS faces significant challenges in obtaining more complete and timely data on the various components of the tax gap through non-compliance with the nation's tax laws. The IRS must continue to seek accurate measures of these individuals and businesses that do not pay and must obtain better research to determine what actions are most effective in addressing non-compliant taxpayers.

TIGTA issued several audits during this reporting period that illustrate the need for the IRS to better protect the security of taxpayer data. The reports made numerous recommendations, including improving protection of the IRS' computer system from external hackers and from employees and contractors who have unnecessary access to information. During this reporting period, TIGTA completed 915 employee integrity investigations, of which 247 involved unauthorized access to confidential taxpayer information.

I look forward to working with the newly confirmed Commissioner of Internal Revenue Douglas Shulman as he strives to administer an efficient, effective, and equitable tax system. TIGTA is committed to working with the IRS, Congress and other stakeholders to ensure that these important goals are met.

Sincerely,

J. Russell George
Inspector General

TIGTA'S HIGHLIGHTS

Examples of high profile cases from the Office of Investigations:

Former CEO Pleads Guilty to Bribing a Government Official

In a Department of Justice (DOJ) press release, Rod J. Rosenstein, the U. S. Attorney for the District of Maryland, praised the Treasury Inspector General for Tax Administration (TIGTA), the Federal Bureau of Investigation, IRS Criminal Investigation Division (CID), the Defense Criminal Investigative Service, and several other Offices of Inspector General, for their assistance in an investigation that led to a guilty plea by Michael B. Holiday. Mr. Holiday is the former chief executive officer and owner of a company that provided security to Federal buildings in Maryland and California. According to court documents, Mr. Holiday pleaded guilty to bribery and tax evasion in connection with a scheme involving three Federal Government contracts worth more than $130 million that were awarded to his company.

IRS Employees Indicted for Fraudulently Obtaining HUD Funds

On October 2, 2007, Cheryl Esters and Michelle Parker were indicted in the U. S. District Court for the Northern District of Texas for obtaining U. S. Department of Housing and Urban Development (HUD) Section 8 funds by fraud. Both individuals were indicted based on a criminal investigation conducted jointly by TIGTA and HUD's Office of Inspector General.

The Housing and Community Development Act of 1974 makes Federal funds available to local housing authorities to assist low-income individuals in obtaining housing. This act includes the Section 8 Rental Voucher Program, which authorizes financial assistance to low-income individuals. Section 8 payments subsidize the rent of low-income families to help them afford housing in the private sector market.

According to court documents, Ms. Esters and Ms. Parker were both IRS employees when they fraudulently obtained HUD Section 8 payments. They each obtained these payments by concealing their receipt of income as Federal employees while applying for HUD Section 8 rental assistance payments on a form entitled "Personal Declaration and Questionnaire for Rental Assistance." Court documents state that Esters fraudulently obtained $34,869 from 2002 through 2006, and Parker fraudulently obtained $26,950 from 2002 through 2005, in HUD Section 8 payments.

John Steven Romero Arrested for Assaulting IRS Employee

On November 16, 2007, TIGTA special agents arrested John Steven Romero in response to an arrest warrant issued on November 15, 2007 by the U. S. District Court, Southern District of California. Mr. Romero was arrested for assault on an Internal Revenue agent while engaged in the performance of his official duties.

According to court documents, on November 15, 2007, the revenue agent went to Mr. Romero's residence to serve a summons. Mr. Romero approached the revenue agent in an apparent attempt to use force against him, slapping the summons from the agent's hand and verbally assaulting him with a profane threat of bodily harm. These actions caused the revenue agent to fear that Mr. Romero's threatened use of force was imminent.

Examples of accomplishments from the Office of Audit:

Taxpayers Victimized by Tax-Related Identity Theft

The IRS has yet to make effective use of available third-party sources to address tax-related identity theft issues. In Fiscal Years 2004 and 2005, the IRS recommended for prosecution only 100 cases that included a charge of identity theft. During Calendar Years 2005 and 2006, the Federal Trade Commission Identity Theft Clearinghouse received 92,570 employment-related and tax fraud identity theft complaints. Also, the IRS has not eliminated the burden it places on taxpayers victimized by identify theft. A TIGTA analysis of Tax Year (TY) 2003 and 2004 identity theft cases in the IRS Automated Underreporter system disclosed that 449 (3.6 percent of the 2003 cases) were closed for the same underreported issue in both years.

Identification of Unreported Self-Employment Taxes Needs to Improve

The IRS needs to strengthen its process to identify and then audit tax returns that are potentially subject to the self-employment tax. Return examiners did not always apply the correct processing code to tax returns that had apparent self-employment income and no tax withholding. Even when correctly coded, the subject tax returns were not always examined. An analysis of a sample of TY 2003 returns that indicated qualifying net income of at least $2,000, but no reported self-employment tax, concluded that the IRS could have assessed at least $19 million annually in additional Social Security and Medicare taxes.

Oversight of Treasury HSPD-12 Initiative was Ineffective

The IRS volunteered to be the lead Department of the Treasury agency in delivering a Homeland Security Presidential Directive-12 solution for issuing and processing department-wide identification media. However, ineffective contract management has led to contractors not being held accountable for work performed; the absence of documentation for incurred program costs; and the expenditure of $3.5 million for unnecessary hardware, software, and services.

IRA Contributions and Distributions Are Not Adequately Monitored

Taxpayers could be treated inequitably due to the absence of effective IRS monitoring and resolution of Individual Retirement Account (IRA) activities. TIGTA found that IRS controls were not effective in assessing excise taxes against both taxpayers who contribute more than the maximum annual amount to their traditional IRA or Roth IRA accounts as well as against individuals aged 70½ who had not begun taking minimum distributions from their traditional IRAs. A major contributing factor is the significant number of erroneous documents submitted by IRA financial custodians.

TIGTA'S PROFILE

The Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of the Department of the Treasury matters involving Internal Revenue Service (IRS) activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. Although TIGTA is placed organizationally in the Treasury Department and reports to the Secretary of the Treasury and to Congress, TIGTA functions independently of all other offices and bureaus within the Department.

TIGTA's work is devoted to all aspects of activity related to the Federal tax system as administered by the IRS. By identifying and addressing the IRS' management challenges, implementing the *President's Management Agenda* and the priorities of the Department of the Treasury, TIGTA endeavors to protect the public's confidence in the tax system.

TIGTA's organizational structure is comprised of five functional offices: the Office of Audit; the Office of Investigations; the Office of Inspections and Evaluations; the Office of Chief Counsel; and the Office of Mission Support (see chart on page 6).

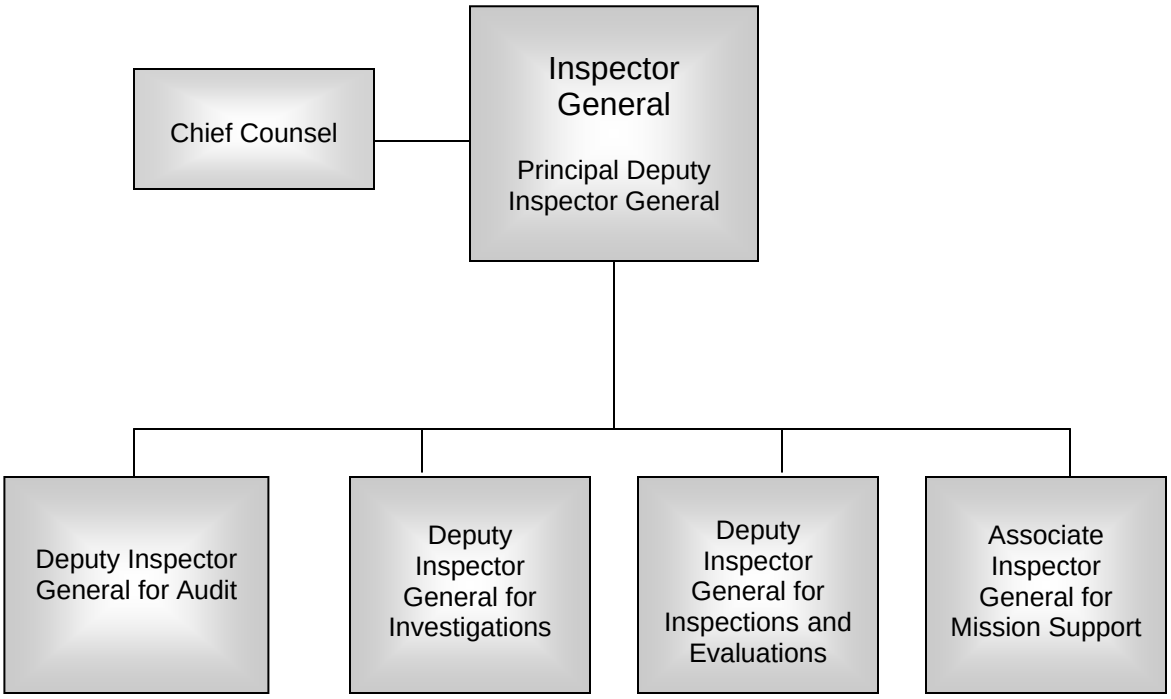
TIGTA conducts audits and investigations designed to:

- promote the economy, efficiency, and effectiveness of tax administration; and
- protect the integrity of tax administration.

STATUTORY MANDATE

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

ORGANIZATIONAL STRUCTURE



AUTHORITIES

TIGTA has all of the authorities granted under the Inspector General Act of 1978, as amended.[1] TIGTA has access to tax information in the performance of its tax-administration responsibilities. TIGTA also has the obligation to report potential criminal violations directly to the Department of Justice. TIGTA 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, the IRS Restructuring and Reform Act of 1998 (RRA 98)[2] amended the Inspector General Act of 1978 to give TIGTA statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Section 7608(b)(2) of the Internal Revenue Code (I.R.C.).

[1] 5 U.S.C.A. app. 3 (West Supp. 2007).

[2] Public Law No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 I.R.C., 31 U.S.C. 38 U.S.C., and 49 U.S.C.).

PROMOTE THE ECONOMY, EFFICIENCY, AND EFFECTIVENESS OF TAX ADMINISTRATION

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

Each year, TIGTA identifies and addresses the major management challenges facing the IRS. TIGTA places audit emphasis on statutory coverage required by RRA 98, and areas of concern to Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders.

The IRS' implementation of audit recommendations results in cost savings and increased or protected revenue, reduction of taxpayer burden, and protection of taxpayer rights and entitlements, taxpayer privacy and security, and IRS resources.

AUDIT EMPHASIS AREAS FOR FISCAL YEAR (FY) 2008

- Systems Modernization of the IRS
- Tax Compliance Initiatives
- Security of the IRS
- Providing Quality Taxpayer Service Operations
- Complexity of the Tax Law
- Human Capital
- Taxpayer Protection and Rights

The following summaries highlight significant audits completed in each of the above areas of emphasis during this six-month reporting period.

Systems Modernization of the IRS

The Business Systems Modernization program is a complex effort to modernize IRS technology and related business processes. Modernizing the IRS' technology has been an ongoing challenge. According to the IRS, this effort involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system. The IRS' goal of providing high-quality, efficient, and responsive information services to its operating divisions is heavily dependent on modernizing its core computer business systems while maintaining the existing systems. It also relies on the

security of those systems, the buildings that house them, and the safety of the people who operate them.

Aging Computer Hardware

The IRS estimates that it should spend $180 million annually to adequately maintain and replenish its computer hardware, and has initiated several actions to address the risks associated with the aging computer hardware. However, the information used to estimate the size and effect of the aging computer hardware could be improved. The IRS established a goal to obtain increased resources to address the aging computer hardware as one of its highest priorities, but permanent program funding remains uncertain and a disciplined investment management governance process is needed for all infrastructure initiatives and activities. As a result, the IRS might not fund the highest priority projects to ensure that investment decisions result in the most efficient use of available resources on behalf of taxpayers.

The IRS continues to emphasize that the core of tax administration processing relies heavily on critical systems designed in the 1960s. Because of the inherent limitations of these systems, the IRS' ability to accomplish its mission and provide better service to taxpayers is hindered. The IRS also reports that the risk to tax administration is significant, because critical business systems are currently operating on aged computer hardware (i.e., hardware that has exceeded its useful life). At the beginning of FY 2006, the aged hardware was estimated to be valued at $276 million, with an additional $161 million in hardware becoming aged during the same fiscal year.

TIGTA recommended that the IRS:

1) implement procedures to improve inventory data accuracy and completeness, and periodically prepare an updated aged computer hardware estimate;
2) improve the integration of asset/inventory management with incident and problem management;
3) permanently allocate necessary funds to maintain and replenish the aging hardware;
4) ensure that End of Life Replacement activity is included in the governance process; and
5) establish a process for monitoring and reporting Sustaining Infrastructure Program accomplishments to address the aging computer hardware issue.

IRS management agreed with four of these five recommendations and stated that it planned to take appropriate corrective actions. The IRS did not agree to permanently allocate the necessary funds within its budget to maintain and replenish the aging computer hardware, but agreed to realign the base budget whenever appropriate, subject to availability. TIGTA disagrees with the IRS's decision and believes it should honor the commitment made to the IRS Oversight Board that the current $45 million being spent on infrastructure would be augmented by reallocating an additional $45 million from program efficiencies in Fiscal Years 2006 through 2008.

TIGTA Report Reference No. 2008-20-002

The Account Management Services Project

The IRS is continuing to modernize its databases to provide immediate access to account data, enable real-time transaction processing, and ensure daily account settlement to improve customer service and business results. The Account Management Services (AMS) project was initiated in May 2006 and has been chartered to address these needs. The project's objective is to provide an integrated approach to view, access, update, and manage taxpayer accounts. This is accomplished by providing IRS employees with the tools to access information quickly and accurately in response to complex customer inquiries and to update taxpayer accounts on demand.

Reviews of the initial AMS releases showed that the project team successfully implemented project management processes and activities, which included project justification, contract, risk, configuration, performance, and transition management.

The AMS Project Management Plan defines the project, the scope of work to be performed, and the planned methodology for managing project activities. The plan also identifies the capabilities that AMS Release One must implement for it to be considered complete. The AMS project team successfully planned work schedules, identified and addressed potential risks to project development, and coordinated with appropriate staff to implement initial release capabilities. Although the AMS project team is on schedule to make the proposed processing capabilities available, its implementation is dependent on the IRS's Modernization and Information Technology Services organization's abilities to integrate these project capabilities into taxpayer account processing.

As a result of the AMS project team's effective implementation of the project management practices, TIGTA did not make any recommendations. In response to the draft report, IRS management noted the comments and observations, acknowledging the successful implementation of the project management processes for the AMS Release One.
TIGTA Report Reference No. 2008-20-053

Tax Compliance Initiatives

Tax compliance initiatives include administering tax regulations, collecting the correct amount of tax for businesses and individuals, and overseeing tax-exempt and government entities for compliance. While increasing voluntary compliance and reducing the tax gap are currently the focus of IRS initiatives, the IRS is facing significant challenges in obtaining more complete and timely data and developing the methods necessary for interpreting the data. It must continue to seek accurate measures for the various components of the tax gap and the effectiveness of the actions taken to reduce the gap. Broader strategies and better research are needed to determine what actions are most effective in addressing noncompliance.

Unreported Self-Employment Taxes

According to the Government Accountability Office, outlays from the main trust funds of the Social Security and Medicare programs are projected to exceed revenues in the next decade. As the tax collector for these programs, the IRS must ensure that self-employed taxpayers meet their tax responsibilities by assessing and collecting the proper amount of

self-employment taxes. Self-employment tax is estimated to make up about $39 billion (72 percent) of underreported employment taxes, or 11 percent of the total gross tax gap, making it one of the largest components of the tax gap.

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TIGTA's review of self-employment tax found that IRS procedures were inconsistent for identifying U.S Individual Income Tax Returns (Form 1040) reporting income on line 21[2] that are potentially subject to the self-employment tax. Also, there was a significant problem with assigning an audit code to returns with potentially unreported self-employment taxes. The code was either improperly assigned when a return had no self-employment tax issue, or was not assigned when a self-employment tax issue was present. Overall, 25 percent of the returns sampled by TIGTA had potential self-employment tax issues, but were either not selected for audit or were surveyed (i.e., the audits were closed with little or no examination of the returns by the IRS Examination function), even though the taxpayers had not properly reported self-employment tax. Approximately 43 percent of these returns had refunds available to offset all or part of the self-employment tax liabilities.

TIGTA recommended that the IRS:

1) emphasize the importance of assigning the correct processing code to returns with potential self-employment tax liabilities and provide additional training to tax examiners to improve the review of income reported on Form 1040, line 21;
2) strengthen the processes for reviewing returns upon receipt for potential unpaid self-employment taxes, especially the processes for including the statutory income indicator in the Wage and Tax Statement (Form W-2) database and for assigning an audit code when a self-employment tax issue is present; and
3) reconsider the decision to cancel its corrective action to address TIGTA's previous recommendation that it immediately work significant unreported self-employment tax cases that have refunds pending, but no response – or an inadequate response – to any letter issued by the IRS.

[1] The "gross tax gap" is the difference between the amount of tax that taxpayers should pay under the tax law and the amount they actually pay on time. In February 2006, the IRS released updated compliance estimates, showing that the gross tax gap was $345 billion in tax year 2001. This estimate however, does not take into account taxes that were paid voluntarily but paid late, or recoveries from IRS enforcement activities. Taking these factors into account, the "net tax gap" was an estimated $290 billion in tax year 2001.

[2] Line 21 "Other Income" is used to report income that is not reported elsewhere on the tax return or on other schedules.

IRS management agreed with the first two recommendations and, as noted, disagreed with the third. The IRS planned to explore the possibility of expanding existing returns processing training material issued in January 2008. However, IRS management stated that the parameters could not be accurately identified to ensure that it would not be withholding the refunds of taxpayers who were not subject to self-employment taxes. Based on the findings of this and previous audits, TIGTA maintained that it was feasible for the IRS to begin examining the returns of taxpayers who appear to owe a significant amount of self-employment tax, have an available refund, and have not responded to contact letters from the IRS. TIGTA encouraged the IRS to move in that direction.
TIGTA Report Reference No. 2008-30-001

Return Delinquency Cases and Unfiled Returns

In Calendar Year 2006, the IRS reported that it issued more than 1.6 million return delinquency notices to business taxpayers who had not filed required tax returns by the return due date. TIGTA determined that some IRS operational internal controls had been effectively established. However, some of the return delinquency cases reviewed were not resolved accurately and in a timely manner, and the IRS needed to improve its computer program to identify business taxpayers who might be liable for employment taxes.

TIGTA's recommendations included that the IRS:

1) ensure that its reviews to assess team managers' practices in performing technical case reviews be completed quarterly; and
2) revise procedures to require full compliance checks for delinquent employment tax returns of "in business" employers[3]

IRS management agreed with all of the report recommendations and has taken or agreed to take corrective actions.
TIGTA Report Reference No. 2008-30-027

Security of the IRS

Millions of taxpayers entrust the IRS with sensitive financial and personal data stored and processed by its computer systems. Recent reports of identity theft from both the private and public sectors have heightened awareness of the need to protect this data. The risks that sensitive data could be compromised and that computer operations could be disrupted continue to increase. These risks are due to internal factors, such as the increased connectivity of computer systems, the increased use of laptop computers, and external factors, such as the volatile threat environment resulting from increased terrorist and hacker activity.
To maintain adequate security of sensitive taxpayer data, the IRS must implement controls at all levels of its computer environment to guard against external intruders as well as malicious

[3] Active business taxpayers who paid wages to employees during the calendar year.

employees and contractors who have been given access to IRS systems to carry out their responsibilities. For example, controls are needed at the perimeter to keep unauthorized persons from intruding into IRS systems, the network architecture used to transmit data back and forth, and the applications and databases used to store taxpayer data.

Network Security

Because the IRS sends sensitive taxpayer and administrative information across its networks, network routers and switches must have sufficient security controls to deter and detect unauthorized use. Access controls for IRS routers were not adequate, and reviews to monitor security configuration changes were not conducted to identify inappropriate use. A disgruntled employee, contractor, or hacker could reconfigure routers and switches to disrupt computer operations and steal taxpayer information in a number of ways, including diverting information to unauthorized systems.

The IRS had authorized 374 accounts for employees and contractors to access routers and switches in performing system administration duties. Of these, 141 (38 percent) did not have proper access authorization. Authorizations for 86 of the 141 employee and contractor accounts had been provided at some point in time, but the authorizations had expired at the time of our review. However, TIGTA could not find router access authorizations for the other 55 employee and contractor accounts. Of particular concern was that 27 of the 55 employees and contractors had accessed the routers and switches to change security configurations.

To authenticate users, the IRS employs a security application that requires users to enter an account name and password. TIGTA found that users circumvented this control by setting up 34 unauthorized accounts, which appeared to be shared-user accounts. Any person who knew the password to these accounts could have changed configurations without accountability and with little chance of detection. For this reason, the IRS requires that shared accounts be used only on a limited basis and that they be subjected to special authorization controls. However, during FY 2007, 4.4 million (over 84 percent) of the 5.2 million accesses to the routers were made by the 34 user accounts. Audit trail reviews necessary to detect security events were also not being conducted.

TIGTA recommended that the IRS:

1) clarify responsibilities for providing authorizations for employees and contractors to access the sensitive network components;
2) eliminate unnecessary shared accounts;
3) improve the testing of authentication controls to identify configuration weaknesses; and
4) ensure that audit trails are reviewed to detect unauthorized actions on the routers and switches.

The IRS agreed with the recommendations and is taking corrective actions.

TIGTA Report Reference No. 2008-20-071

Database Security

The IRS stores its taxpayer, financial, and other data in more than 2,100 databases. However, it continues to have recurring information security weaknesses that make its databases susceptible to penetration attacks. Due to the sensitivity of these data, the IRS could be a target for malicious users who are intent on committing identity theft and fraud.

High-risk weaknesses continue to exist, and sufficient corrective actions have not been taken. TIGTA scanned IRS networks and determined that 11 percent of approximately 1,900 databases had one or more installation accounts with a default or blank password. A total of 369 installation accounts, including 26 containing powerful database administrator privileges, had default or blank passwords.

Databases found with default or blank passwords during our scans included those that contained personally identifiable tax information. Malicious users could exploit accounts with default or blank passwords to steal taxpayer identities and carry out fraud schemes.

TIGTA made several recommendations, including ensuring that security training is provided to employees with key security responsibilities and improving the process for identifying and correcting accounts with blank or default passwords by expanding the scanning criteria. IRS management agreed with all of the recommendations in the report and plans to take appropriate corrective actions.
TIGTA Report Reference No. 2008-20-029

Homeland Security Presidential Directive-12

The total estimated cost to build and maintain a Homeland Security Presidential Directive-12 (HSPD-12) system for the Department of the Treasury is $421 million over 14 years. As the lead bureau for the Treasury Department, the IRS is charged with ensuring that the funds are spent prudently. The IRS estimated it had obligated $30 million as of June 2007.

The IRS did not administer contracts effectively and could not provide documentation to support the actual costs charged to the HSPD-12 program. The Program Management Office did not effectively manage the contracts for the HSPD-12 program. Statements of work were too general to hold contractors accountable for work performed, and the IRS paid contractors without verifying that work was performed. The IRS could not provide supporting documentation for the actual costs spent on the program, and TIGTA found that at least $3.5 million had been spent on unneeded hardware, software and services.

In addition, the IRS did not follow its established governance procedures for overseeing the HSPD-12 program because it did not prepare a formal business case for the program. An internal business case was prepared by the Program Management Office, but it did not comply with IRS business case requirements, and it was never provided to the Treasury HSPD-12 governance committees overseeing the program. Additionally, program management made statements to Treasury Department and IRS officials that were inaccurate. As a result, the governance committees did not have sufficient information with which to make critical management decisions for the program.

TIGTA recommended that the IRS require that future task orders prepared by the HSPD-12 Program Management Office separate tasks by function, and that the Program Manager maintain documentation sufficient to support all HSPD-12 program costs and assign costs to specific task orders. TIGTA also recommended that the IRS coordinate with the Treasury Department to evaluate the possibility of combining its Public Key Infrastructure efforts with those of the General Services Administration. The IRS should also ensure that executive steering committees responsible for providing oversight to information technology projects enforce the use of IRS Enterprise Life Cycle requirements.

IRS management agreed with the recommendations and plans to take several steps to improve management of the HSPD-12 Program Management Office.
TIGTA Report Reference No. 2008-20-030

Providing Quality Taxpayer Service Operations

Since the 1990s, the IRS has increased its delivery of quality customer service to taxpayers. In its current strategic plan, the IRS's first goal is to improve taxpayer service. However, since the late 1990s, the IRS has gradually allocated more resources to the collection, examination, and criminal investigation functions and fewer resources to taxpayer service functions. As a result of this resource shift and other factors, in July 2005, Congress requested that the IRS develop a five-year plan that would include an outline of which services the IRS should provide and how it would improve services for taxpayers. In response, the IRS developed the Taxpayer Assistance Blueprint to help it focus on providing the appropriate types and amounts of service. However, the IRS is already facing challenges with the Blueprint. As it moves forward, inaccuracies and inconsistencies will put the Blueprint at risk of improperly aligning service content, delivery, and resources with taxpayer and partner expectations.[4]

Carryback Loss Claims

When taxpayers have significant losses from business activities or natural disasters, their deductions may exceed their income for the tax year, resulting in a net operating loss. Taxpayers can file claims to apply (or to carry back) these losses to income in prior years, which result in refunds of taxes previously paid. The IRS processed 60,865 individual carryback loss refunds totaling approximately $1.2 billion in FY 2007.

The IRS has processes to review these claims. However, it does not always identify and correct the errors before the claims are processed and the refunds are paid. TIGTA reviewed a statistical sample of 84 carryback loss refund claims that posted to the IRS Master File between August 1, 2004, and July 30, 2005, and determined that 42 (50 percent) contained at least one error. The IRS did not correct the errors on 24 (57 percent) of the 42 claims, resulting in $732,941 in additional refunds due to taxpayers and $1,126,501 in additional tax due to the IRS. The majority of the errors on the refund claims fell into three common

[4] *The Taxpayer Assistance Blueprint Phase 2 Was Generally Reliable, but Oversight of the Survey Design Needs Improvement* (Reference Number 2008-40-059, dated February 5, 2008)

categories: Alternative Minimum Tax (AMT), charitable contributions deductions, and IRS changes to the originally filed loss year tax return.

Unclear tax form instructions and tax publications appeared to contribute to taxpayer errors. IRS procedures for working carryback claims were also vague and open to interpretation. Therefore, TIGTA recommended that the IRS revise the applicable instructions for claiming the carryback loss as they related to the charitable contributions deduction and the AMT. TIGTA also recommended that the IRS change the instructions for Forms 1045[5] and 1040X[6] as they pertained to carryback losses, requiring taxpayers to attach the AMT form for each carryback year.

TIGTA also recommended that the IRS:

1) revise the procedures for working carryback refunds to improve the identification and resolution of errors before the refunds were paid;
2) change the procedures for verifying the carryback claim to require employees to ensure that the AMT form is attached for each carryback year; and
3) work to modify the Desktop Integration tool for the alternative tax net operating loss deduction.

IRS management agreed with most of TIGTA's recommendations and has taken or agreed to take appropriate corrective actions. Management partially agreed with the recommendation to revise the instructions for Forms 1045 and 1040X, and TIGTA agreed that the planned corrective action was adequate. The IRS disagreed, however, with the recommendations requiring taxpayers to attach the AMT form for each carryback year and requiring that IRS employees ensure that the form is attached. The IRS indicated that requiring the taxpayer to attach this form would impose an unreasonable burden and would likely be viewed as a violation of the Paperwork Reduction Act of 1995. TIGTA believes that the only additional taxpayer burden would be to attach a copy of the Form 6251[7] for each loss year to the carryback claim. Taxpayers are already required to complete the Form 6251, and they voluntarily included the form on most of the claims filed.

TIGTA Report Reference No. 2008-40-062

Administration of Taxes Used to Maintain the Nation's Highways

The Heavy Highway Vehicle Use Tax (Heavy Vehicle Use Tax) is a prepaid tax the IRS collects. Combined with other Federal excise taxes, it is used to provide more than $1 billion annually in Federal highway transit funds to the States.

The IRS recognizes the unique challenges and complexity related to the Heavy Vehicle Use Tax and offers a number of assistance options for taxpayers. The Alternate Proof of Payment Program is based on an agreement between the IRS and State Departments of Motor Vehicles that allows taxpayers to simultaneously file, pay the Heavy Vehicle Use Tax, and register their vehicles. This program can reduce the risk of noncompliance because the tax return and associated payment are provided at the time of registration;

[5] Form 1045, Application for Tentative Refund
[6] Form 1040X, Amended U.S. Individual Income Tax Return
[7] Alternative Minimum Tax—Individuals

however, it currently operates in only 11 States.

The IRS has developed a process that enables Heavy Highway Vehicle Use Tax Return (Form 2290) filers to electronically file their tax returns because of a law requiring taxpayers with 25 or more vehicles to electronically file. As of December 9, 2007, the IRS had received 1,569 electronically filed Forms 2290. Although electronic filing benefits both taxpayers and the IRS, costs and unfamiliarity with this option may be limiting participation.

TIGTA recommended that the IRS:

1) encourage more State participation in the Alternate Proof of Payment Program;
2) develop a process to identify States participating in the program;
3) ensure that agreement provisions are followed; and
4) promote the benefits of electronic filing to all Form 2290 filers to increase electronic filing participation.

IRS management agreed with the recommendations and plans to take appropriate corrective actions.
TIGTA Report Reference No. 2008-40-089

Complexity of the Tax Law

Simplicity, transparency, and ease of administration are interrelated and desirable features of a tax system. Over the years, the Federal tax system, especially the Federal income tax, has become more complex, less transparent, and subject to frequent revision. Tax complexity and frequent revisions to the Internal Revenue Code make it more difficult and costly for taxpayers who want to comply with the system's requirements, and for the IRS to explain and enforce the tax laws. Tax law complexity results in higher costs for both tax administration and tax compliance. Simplification and reform have the potential for reducing the tax gap by billions of dollars.

Individual Retirement Accounts

As more taxpayers reach retirement age, their incomes will be transitioning from wages to investment and retirement benefits. Individual Retirement Accounts (IRA) are a key, tax-deferred way for individuals to save for retirement and are an increasingly important way for individuals to roll over savings from pension plans. In 2005, estimated Roth IRA assets totaled $147 billion, and traditional IRA assets totaled $3.26 trillion. TIGTA found that taxpayers are sometimes contributing more than is allowed into tax-deferred or tax-free accounts, and they are not taking taxable distributions when required, which could result in lost tax revenues.

The IRS needs to strengthen its procedures and controls for ensuring that taxpayers and IRA custodians comply with IRA rules. Failure to ensure correct reporting by IRA custodians could hinder the IRS's ability to identify excess contributions. Moreover, lack of adequate monitoring and enforcement could result in lost tax revenues when taxpayers

make excess contributions or fail to pay excise taxes on required minimum distributions that are not taken.

TIGTA recommended that the IRS:

1) conduct analyses for identifying and resolving erroneous IRA Contribution Information (Form 5498);
2) develop and implement strategies to bring noncompliant taxpayers back into compliance;
3) utilize information from the Forms 5498 to identify taxpayers who are subject to required minimum distributions and compare this information to subsequent tax returns to determine whether distributions were reported; and
4) require IRA custodians to compute and provide to the IRS the estimated required minimum distributions so this information could be used as part of the Automated Underreporter Program.

The IRS agreed with the recommendations and plans to take appropriate corrective actions.
TIGTA Report Reference No. 2008-40-087 (Sensitive But Unclassified)[8]

Human Capital

The Federal workforce is aging, and agencies are facing not only retirements and staff turnover, but also the unique challenges of the 21st century. The IRS recognizes that it must be prepared to respond to an increasing and more demanding population, a more global and multilingual environment, and an increasing number of taxpayers who have complex financial holdings, and the means and motives to resist paying their taxes.[9] In addition, the IRS, along with other Federal agencies, is slowly moving toward changing pay, classification, and performance management systems to transition to a more market-based and performance-oriented culture.

Workers' Compensation Program

The IRS cash outlays for workers' compensation claims continue to increase, driven by factors such as cost of living increases and higher costs for medical equipment, medications, and treatment. These outlays represent financial obligations to care for injured employees and can be considered a cost of doing business. However, if the costs are not properly managed and increase significantly, obligations could ultimately affect the amount of money the IRS has available for enhancing the delivery of service to the taxpaying public.

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[8] The term "Sensitive But Classified" originated with the Computer Security Act of 1987. It defines SBU as "any information, the loss, misuse, or unauthorized access to or modification of which could adversely affect the national interest or the conduct of Federal programs, or the privacy to which individuals are entitled under Section 552a of Title 5, United States Code (USC) (the Privacy Act) but which has not been specifically authorized under criteria established by executive order or an act of Congress to be kept secret in the interest of national defense or foreign policy." – Chapter III, Section 23 of the Department of the Treasury Security Manual (TD P 15-71).
[9] IRS Publication No. 3744, *IRS Strategic Plan: 2005-2009*, (revised 6-2004).

TIGTA found that control processes needed to be established to ensure that the IRS was not overpaying workers' compensation benefits. TIGTA questioned more than $1 million in charges that included benefits that were paid subsequent to Social Security Administration records indicating claimants had died.

In addition, TIGTA determined that steps needed to be taken to ensure that required IRS-wide procedures were followed when initiating claims and that a more strategically oriented approach needed to be implemented for returning employees back to work following an injury. A review of case files associated with 40 claims found problems in 31 of the claim cases. Among other things, TIGTA found that injury investigations were not thoroughly conducted and some questionable claims were not challenged while others were improperly challenged.

Increasing from $1.4 billion in 1990 to nearly $2.4 billion in 2005, the rising costs of workers' compensation has caused concern throughout the Federal government. TIGTA analyzed practices implemented by agencies that were particularly effective at controlling costs and returning claimants to work. In contrast to these practices, TIGTA found that the IRS return-to-work efforts were more reactive, less strategically oriented, and heavily reliant on its first-line managers. Moreover, specific policies and procedures had yet to be implemented to coordinate and collaborate across functional lines to assist in transitioning more employees back to the workplace.

TIGTA recommended that the IRS:

1) develop and implement control processes for reviewing the accuracy of costs in chargeback reports;
2) obtain evidence to support the claim that benefits are paid only to current or former IRS employees; and
3) seek reimbursement for the compensation paid subsequent to claimants' deaths and on denied claims.

TIGTA also recommended that the IRS implement a control to provide assurances that required procedures are completed in the claims process, and establish a more strategic approach to enhance return-to-work efforts.

IRS management agreed with the recommendations and has taken or will be taking corrective actions.

TIGTA Report Reference No. 2008-30-056

Taxpayer Protection and Rights

Identity theft is a growing national problem that increasingly affects tax administration. Individuals who steal taxpayer identities affect the tax system in two ways:

- Fraudulent Tax Returns – An individual may use another person's identity [name and Social Security Number (SSN)] to file a fraudulent tax return in order to steal a tax refund. Subsequently, the lawful taxpayer would have to prove his or her identity to correct his or her tax liability or refund.

- Misreporting of Income – An individual may use another person's name and SSN to obtain employment. Because income earned is reported to the IRS by the employer, it will appear to the IRS that the lawful taxpayer did not report all of his or her income on his or her tax return.

In October 1998, the Identity Theft and Assumption Deterrence Act[10] was enacted. It expanded the criminalization of fraud in connection with identification documents to cover the unlawful transfer and use of identity. The law defines identity theft as when someone "…knowingly transfers or uses, without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, any unlawful activity that constitutes a violation of Federal law, or that constitutes a felony under any applicable State or local law."

Employment-Related and Tax Fraud Identity Theft

The IRS has not placed sufficient emphasis on employment-related and tax fraud identity theft. The IRS's Criminal Investigation Division investigates identity theft crimes only if they are committed in conjunction with other criminal offenses having a large tax effect. As a result, the IRS has mainly focused on combating identity theft through public outreach. In addition, current processes have been inadequate in reducing burden for taxpayers victimized by identity theft. The IRS still lacks the comprehensive data needed to determine the impact identity theft is having on tax administration.

TIGTA recommended that the IRS:

1) develop and implement a strategy to address employment-related and tax fraud identity theft, including coordinating with other Federal agencies;
2) update the Automated Underreporter System to display prior year case closing codes on the individual case screens and create identity theft closing codes for multiple issue cases; and
3) revise Withholding Compliance function case selection criteria to incorporate special handling of identity theft victims.

IRS management generally agreed with all of the recommendations. The IRS is developing a five-year strategy for the Privacy, Information Protection, and Data Security Office that will include identity theft issues. However, due to confidentiality and disclosure restrictions, management does not plan to more actively identify or stop individuals from committing employment-related identity theft or to notify employers of their employees' actions. Management did, however, provide a copy of TIGTA's draft audit report to the Office of the Assistant Secretary of the Treasury for Tax Policy to evaluate whether or not to seek a legislative remedy.

In January 2008, the IRS implemented the universal identity theft indicator to mark taxpayer accounts when a taxpayer self-identifies as an identity theft victim and provides the proper documentation to verify his or her identity. This code enables the IRS to centrally track identity theft incidents and eliminates the need to update the Automated

[10] Pub. L. No. 105-318, 112 Stat. 3007 (codified in part at 18 U.S.C. Section 1028).

Underreporter System case screens and develop closing codes for multiple issue cases. The IRS plans to develop business rules for various programs to apply unique treatments to cases in which the universal identity theft indicator is present.

TIGTA acknowledges the IRS's efforts to improve business processes to reduce the burden on identity theft victims. Effective use of the universal identity theft indicator should reduce the number of multiple contacts made with taxpayers. However, TIGTA is still concerned about the lack of action on employment-related identity theft cases and details in the IRS's response concerning the responsible officials and implementation dates for some of its planned actions. In addition, because the Federal Trade Commission Identity Theft Clearinghouse is the sole national repository of consumer identity theft complaints, it should be an important source of data for the IRS's Criminal Investigation Division.
TIGTA Report Reference No. 2008-40-086

PROTECT THE INTEGRITY OF TAX ADMINISTRATION

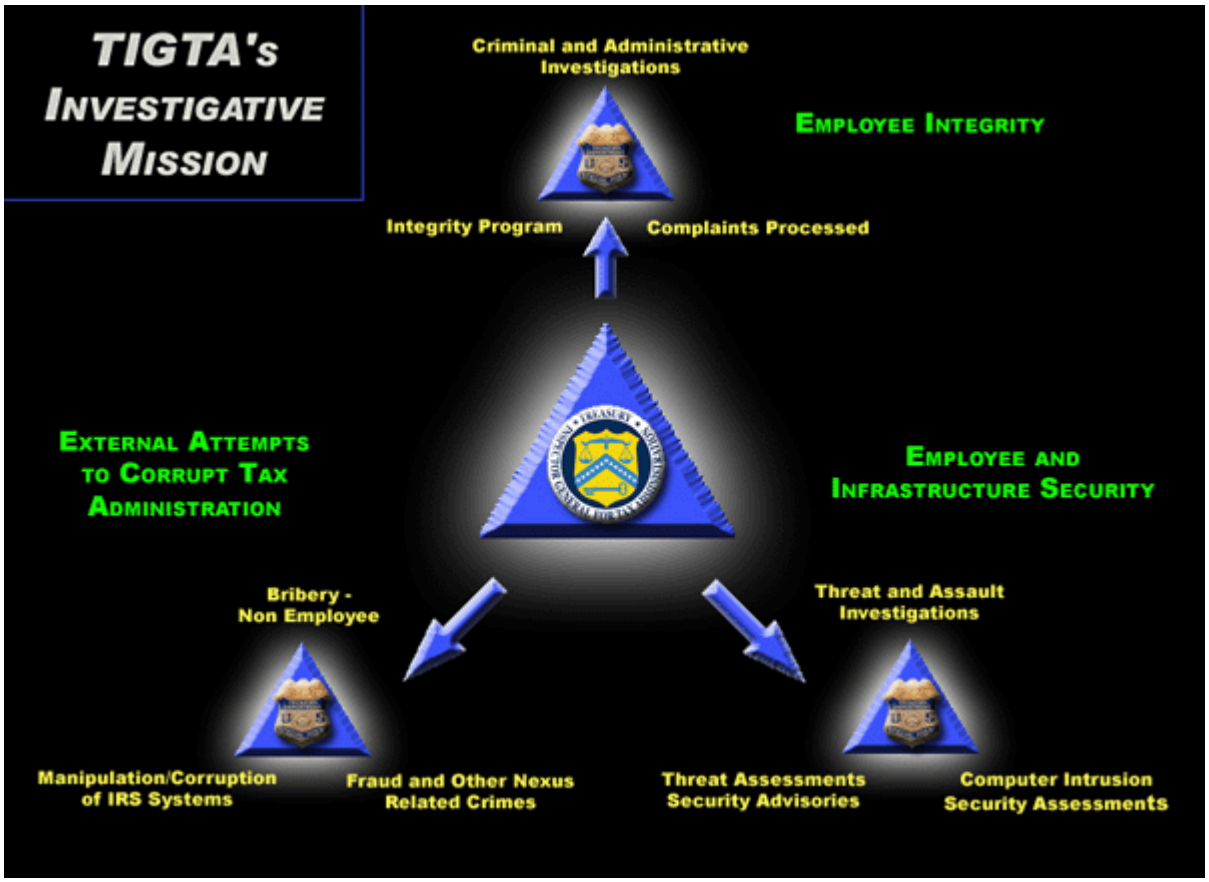
TIGTA's Office of Investigations (OI) has a unique statutory mandate to protect the tax revenue that funds the operations of our Federal government. TIGTA's work touches every citizen of the United States every day, because the revenue stream it protects provides for the health, safety, welfare and common defense of every American.

TIGTA's statutory mandate is substantially broader than that of most Offices of Inspector General. While all Offices of Inspector General combat fraud, waste, and abuse, TIGTA is also statutorily charged with protecting the integrity of Federal tax administration.

To satisfy its broad mandate, TIGTA performs a variety of functions, including:

- Investigating allegations of criminal violations that adversely impact Federal tax administration;
- Investigating allegations of serious administrative misconduct by IRS employees;
- Initiating proactive work to detect criminal or administrative misconduct in the administration of IRS programs;
- Working closely with IRS employees, tax practitioners, and community groups to educate them about indicators of integrity problems or fraud in IRS programs;
- Operating an aggressive Criminal Intelligence Program to proactively identify and mitigate threats to IRS employees or to the continuity of IRS operations;
- Investigating assaults and threats against IRS employees, facilities and operations;
- Working proactively to identify and mitigate threats to IRS information systems;
- Protecting the increasingly important electronic environment in which Federal tax administration is conducted;
- Investigating fraud, waste, and abuse involving IRS procurements and contracting;
- Maintaining a national complaint center accessible by telephone or the Internet that serves as the hub for receiving and addressing complaints of fraud, waste, abuse and misconduct involving IRS employees, programs and operations;
- Maintaining a robust forensic science program to analyze physical and digital evidence gathered during investigations;
- Operating the land mobile radio program on behalf of the Treasury Department and all of its bureaus; and
- Employing specialized technical and investigative equipment, training, and techniques to enhance investigative outcomes.

TIGTA'S INVESTIGATIVE PERFORMANCE MODEL



TIGTA has employed a progressive Performance Model to focus investigative efforts on its three primary areas of investigative responsibility: employee integrity; employee and infrastructure security; and external attempts to corrupt Federal tax administration. Since its introduction, the Performance Model has served both to focus TIGTA's investigative activities and to demonstrate the value of its investigations to external stakeholders.

Over time, the Performance Model has proven to be a far more powerful management tool than initially anticipated. Because the Performance Model focuses on TIGTA's core mission-related objectives, it has become an essential tool for gauging almost every aspect of TIGTA's investigative operations. The use of performance measures adopted to track investigative activity under the Performance Model helps quantify investigative productivity and produces reliable statistical data to better inform budgetary planning, staffing decisions and training needs.

The objective, measurable data derived by using the performance measures:

- drives budget planning within OI;
- helps identify special agent training needs;

- aids in detecting imbalances in the distribution of human capital resources by analyzing the data produced; and
- assists in making staffing decisions.

The Performance Model has become an indispensable management tool as the growing body of data collected by using it has been analyzed and transformed into information for making better strategic organizational decisions. Use of the Performance Model has shown that TIGTA needs to focus more investigative resources on the electronic environment in which Federal tax administration increasingly operates, and in which new threats to IRS operations are rapidly emerging and known threats are continually evolving.

During this reporting period, OI has substantially realigned its existing human capital resources within the Strategic Enforcement Division (SED) to combat the increasing volume of Internet-based scams and phishing schemes that corrupt the integrity of online IRS programs and operations. By the end of the next reporting period, OI will also have completed a rigorous training program for all special agents in the area of investigating crimes in the electronic environment.

Employee Integrity

IRS employee misconduct affects all Americans because it undermines the Federal revenue stream that provides for the health, safety, welfare and common defense of the nation.

TIGTA takes its responsibility to preserve the integrity of Federal tax administration very seriously. TIGTA investigates such employee misconduct allegations such as extortion, bribery, theft, abusive treatment of taxpayers, false statements, financial fraud, and unauthorized access to confidential taxpayer information (UNAX). These investigations also include contractor and tax practitioner misconduct and fraud.

Crimes committed by IRS employees within the IRS electronic environment include diverting taxpayers' returns by manipulating IRS information systems, and manipulating IRS information so that an IRS employee or another person can receive an inflated refund.

UNAX is a persistent vulnerability for the IRS and the Federal tax system. The IRS is entrusted with properly maintaining and safeguarding sensitive taxpayer information, including personally identifiable information, the loss or misuse of which could result in identity theft and other fraudulent activity. Because the Federal tax system is based on voluntary compliance, public confidence that personal and financial information given to the IRS for tax administration purposes will be kept confidential is essential to that system. Even when an unauthorized access does not involve unauthorized disclosure of taxpayer information by an IRS employee, these cases undermine taxpayer confidence in the tax administration system. TIGTA has specific programs to protect the confidentiality, integrity, and availability of this sensitive information.

To protect the privacy of taxpayer data, SED employs a variety of audit trail and forensic data analysis tools to proactively identify potential UNAX violators and to identify systemic problems or weaknesses. Once SED develops an investigative UNAX lead, it is forwarded to the

appropriate TIGTA field office for local investigation. TIGTA's UNAX program investigates unauthorized access of the Integrated Data Retrieval System[1] by utilizing proactive and reactive methods. Over the past 10 years, TIGTA special agents have investigated an average of 470 UNAX cases per year. Over half of those investigations are proactively generated utilizing data mining techniques by TIGTA's forensic data analysts. Other investigations are initiated because of complaints or allegations made by taxpayers or IRS officials. Of the UNAX investigations proactively generated by TIGTA, over 90 percent result in substantiated UNAX violations. The UNAX allegations that are investigated as a result of taxpayer or IRS management complaints are fully investigated by leveraging the forensic data analysts' expertise. Of the UNAX violations investigated this fiscal year, 30 percent have an affiliated criminal violation in conjunction with the UNAX (e.g., identity theft, bribery, or theft of government funds through improper adjustments of IRS accounts).

As the IRS continues its modernization efforts and expands its services to taxpayers by developing new automated systems, TIGTA continues to stress the importance of incorporating robust audit trail capabilities as an integral defense against threats to the rapidly expanding IRS electronic environment. This electronic environment in which sensitive taxpayer information is stored and flows will continue to expand rapidly, and UNAX will pose an ever-increasing threat to the security of taxpayer information. Although TIGTA provided 1,251 fraud awareness presentations last year and the IRS annually trains all of its employees about UNAX, there is no indication that UNAX violations will subside. In fact, UNAX will likely increase as the IRS designs new systems that allow easier access to sensitive tax information for improved response to taxpayer inquiries. During this reporting period, TIGTA provided fraud awareness presentations to more than 15,000 IRS employees. In addition, TIGTA completed 915 employee integrity investigations, of which 247 were UNAX investigations. These investigations resulted in six criminal prosecutions and 539 administrative disciplinary actions against IRS employees.

The following cases are examples of IRS employee and contractor integrity investigations that TIGTA conducted during this period:

Ten Indicted for Illegally Obtaining Confidential Tax Information

On December 5, 2007, ten people were indicted in the U. S. District Court, Western District of Washington at Tacoma, for conspiracy, wire fraud, and aggravated identity theft. Six of the defendants were charged with solicitation of Federal tax information.

According to court documents, defendants Emilio A. Torrella and Brandy N. Torrella owned and operated BNT Investigations in Belfair, Washington, which provided private investigative and background research services. BNT Investigations employed defendant Steven W. Berwick as an office manager and researcher. Allegedly, the Torrellas and their employees, including Mr. Berwick, telephoned State and Federal agencies, including the IRS, posing as the individuals about whom they were seeking information. Through such fraudulent telephone calls, the Torrellas and their employees obtained personal wage information, employment histories, Social Security benefits information, Federal tax records, and medication and hospitalization records.

[1] The Integrated Data Retrieval System is currently the IRS's primary system of taxpayer records.

INVESTIGATIVE SUPPORT PROVIDED BY TIGTA'S STRATEGIC ENFORCEMENT DIVISION

The Strategic Enforcement Division (SED) is the component of the Office of Investigations that leverages computer experience and expertise to identify electronic vulnerabilities and gather computer evidence to enhance TIGTA investigations. Identifying unauthorized access to taxpayer information by IRS employees (UNAX) continues to be one of the significant accomplishments of this group. As the IRS continues its modernization efforts, the potential for increased UNAX violations by IRS employees and others exists. SED will be challenged to maintain pace with this potential increase.

SED-UNAX PROGRAM

What is UNAX? – UNAX is the term that refers to the ***Unauthorized Access*** to taxpayer information by IRS employees, and other Federal and State employees and private contractors who may have authorized access to IRS information in the performance of their official duties.

What Is TIGTA's Role? – TIGTA is responsible for detecting and investigating UNAX violations in accordance with the Taxpayer Browsing Protection Act of 1997. Pursuant to Title 26, it is a criminal offense to willfully inspect or disclose Federal tax information without proper approval. The provisions of Title 18 prohibit the intentional, unauthorized, or exceeding authorized access to any information stored on a government-owned computer.

Why Investigate UNAX? – UNAX can lead to identity theft and undermines taxpayers' trust in the Federal tax system to safeguard confidential tax information in its custody.

How Are UNAX Violations Found? – TIGTA uses a computer-based detection program that analyzes access to tax accounts, and identifies those with potential UNAX issues. Cases with confirmed UNAX issues or any other potential criminal violations are forwarded to TIGTA special agents in the field for further investigation. Employees found to have committed UNAX violations are subject to Federal prosecution, termination of employment, or other disciplinary action.

Is the TIGTA UNAX Program Successful? – Yes. In the last 10 years, TIGTA special agents have investigated more than 4,700 cases of potential UNAX violations, resulting in more than 990 adverse personnel actions taken by the IRS. An additional 883 employees resigned from the IRS during the investigation or before personnel action could be taken. In addition, 176 employees have been criminally prosecuted for UNAX violations.

Have UNAX Violations Decreased? – No. There has not been a noticeable decrease in the number of violations. Each year, TIGTA special agents initiate approximately 470 UNAX investigations, and the rapidly expanding IRS electronic environment creates the potential for a great increase in UNAX incidents. TIGTA continues to carefully monitor its allocation of human resources devoted to the UNAX program in an effort to optimize its effectiveness in this critical area.

During this six-month reporting period, the UNAX Program has:

- identified and analyzed 245 leads of potential unauthorized access;
- referred 120 criminal cases to TIGTA agents for investigation;
- resulted in 12 criminal prosecutions and 86 adverse administrative actions against IRS employees; and
- substantiated 92 percent of investigative leads referred to the field.

Court documents allege that from approximately January 2004 to May 2007, the defendants conspired to obtain confidential tax, medical, and employment information through false pretenses on about 12,000 individuals. To obtain this information, defendants Victoria J. Tade, Megan M. Ososke, Robert Grieve, Ziad N. Sakhleh, Patrick A Bombino, Esaun G. Pinto, Sr., and Darci P. Templeton, all private investigators throughout the nation, submitted requests to the Torrellas and their employees, including Berwick, to uncover confidential employment, financial, tax, or medical information of individuals they were investigating on behalf of other clients. When submitting these requests, the private investigators provided the Torrellas with the subjects' identifying information such as full names, dates of birth, addresses, and Social Security numbers. The individuals being investigated were not aware that their identifying information was being disseminated and used in this manner, nor did they give permission to anyone to obtain the confidential information.

IRS Employee Sentenced for Unauthorized Access of Computer Data

On December 20, 2007, Patricia Moreno was sentenced in the U. S. District Court, Eastern District of California to one year of probation, 50 hours of community service, a $500 fine, and a $25 penalty assessment for unauthorized access of computer data.

According to court documents, between approximately March 17, 2003, and April 22, 2004, Ms. Moreno, in her capacity as a tax examining technician for the IRS, exceeded her authorized access and obtained confidential information contained in the IRS tax database. Specifically, Ms. Moreno accessed the confidential tax records of an individual on at least 85 different occasions.

Former IRS Employee Sentenced for Unauthorized Inspection of Tax Returns and Return Information

Diane Snyderman was sentenced on January 8, 2008, in the U.S. District Court of New Jersey, to four years probation, six months of home confinement, a $10,000 fine, and a $25 special assessment fee on one count of unauthorized inspection of tax return information.

On August 9, 2007, Ms. Snyderman, who was formerly employed by the IRS, pleaded guilty in the United States District Court for the District of New Jersey, to the unauthorized inspection of tax returns and return information.

According to court documents, an investigation was initiated after SED established that on or about April 22, 2005, Ms. Snyderman inspected return information of an individual who was a Certified Public Accountant (CPA) and who had prepared Ms. Snyderman's tax returns for the past 30 years. SED also established that between about August 1997 and about September 2006, Ms. Snyderman engaged in a variety of unauthorized activities and accesses that were outside the scope of her duties. According to court documents, Ms. Snyderman inspected tax returns and/or return information for approximately 56 individuals who were all clients of her CPA. Ms. Snyderman also inspected tax returns and return information relating to a real estate sales firm listed on her IRS employment

application as her former employer, and tax returns and return information relating to her friends and relatives, and her friends' relatives.

IRS Employee Pleads Guilty to Unauthorized Inspection of Tax Return Information

On December 19, 2007, Ericka Duson pleaded guilty in the U.S. District Court for the Eastern District of California to unauthorized inspection of tax return information.

According to court documents, between January 3, 2000, and January 24, 2004, Ms. Duson, as an employee of the IRS, unlawfully and without authorization accessed and inspected the tax return information of approximately 183 private individuals.

Latitia Simmons Indicted on Theft and Forgery Charges

On December 20, 2007, Latitia Simmons was indicted in the Circuit Court of the Eighteenth Judicial Circuit, DuPage County, Illinois, on theft and forgery charges.

According to court documents, between September 26, 2002, and September 12, 2006, Ms. Simmons committed theft of United States currency valued between $300 and $10,000 that was the property of the IRS. In addition, Simmons allegedly committed forgery with the intent to defraud by knowingly delivering employee time reports to the IRS that were purported to have been made by another individual.

Employee and Infrastructure Security

Congress recognized the importance of protecting the Federal Government's ability to collect tax revenue when it created TIGTA. The agency accomplishes its statutory mandate to protect Federal revenue collection by identifying and investigating threats to IRS employees, physical infrastructure, and the electronic environment in which Federal revenue collection largely occurs.

Assaults and Threats against IRS Employees

TIGTA aggressively responds to assaults or threats against IRS employees and submits information regarding dangerous taxpayers to the IRS Office of Employee Protection, which administers the IRS Potentially Dangerous Taxpayer Program.

The following case is an example of an assault and threat investigation TIGTA conducted during this reporting period:

Lisa Blechman Arrested for Assaulting IRS Employee

On November 14, 2007, TIGTA special agents apprehended Lisa Blechman in response to an arrest warrant issued on November 13, 2007, by the United States District Court, Central District of California. Ms. Blechman was arrested for intentionally assaulting an employee of the IRS by unleashing two dogs while the employee was performing her official duties.

According to court documents, on October 30, 2007, an IRS employee went to Ms. Blechman's residence to serve an IRS summons. When the IRS employee identified herself, Ms. Blechman became visibly agitated and began yelling and swearing at her. After the IRS employee taped the summons to the front door, Ms. Blechman told the IRS employee that if she did not remove the summons from the door, Ms. Blechman was going to come outside with her dogs. As the IRS employee began to walk to her vehicle, Ms. Blechman opened the front door and let the dogs out in an attempt to scare and intimidate the IRS employee.

Threats to the IRS Electronic Environment

Crimes within the IRS electronic environment include those committed by IRS employees and those committed externally. Examples of external crimes include refund theft and impersonation of IRS employees to obtain personal information that is then used to divert a taxpayer's refund or to commit identity theft.

SED is staffed with data analysts, computer specialists, and criminal investigators with the technical expertise to monitor, probe and investigate in the evolving electronic environment. Investigators and computer programmers assigned to the System Intrusion Network Attack Response Team (SINART) investigate attempts to interfere with the security, integrity, and availability of IRS information systems by external sources. They respond to computer intrusion incidents, investigate IRS network vulnerabilities, and conduct system-wide penetration tests. Agents assigned to the Computer Investigative Support Program provide forensic analysis of computers and other media to develop evidence in support of TIGTA investigations. TIGTA has also coordinated efforts with the IRS to protect taxpayer information within the IRS electronic environment. The SINART provides security assessments of the IRS network.

Igor Rodov Pleads Guilty to Aiding and Abetting Commission of Wire Fraud

According to the U. S. Attorney for the District of Connecticut, Igor Rodov, 31, a citizen of Belarus residing in Connecticut, pleaded guilty on Friday, February 29, 2008, before Senior U. S. District Judge Ellen Bree Burns in New Haven to one count of aiding and abetting the commission of wire fraud.

According to documents filed with the U. S. Federal Court and court statements, beginning in January 2006, and continuing until November 2006, Mr. Rodov aided and abetted another individual engaged in a scheme to defraud the U. S. Department of the Treasury and 120 individual taxpayers of money by means of materially false and fraudulent representation. The other individual was able to obtain the personal information of the individual taxpayers, without consent, including names, addresses, Social Security numbers, and wage information. The individual then used that personal information to file Federal income tax returns electronically for those taxpayers using two Web sites. Those filings were done without the consent of the taxpayers. The individual electronically signed each of the filings and, in so doing, fraudulently represented that he was the individual taxpayer named in the filings.

Mr. Rodov knowingly associated and participated in this scheme to defraud by opening several bank accounts in his name with several banks in Connecticut. Subsequently, the fraudulently obtained tax refunds were deposited into the bank accounts opened and maintained by Mr. Rodov. Mr. Rodov faces a maximum term of imprisonment of 20 years and a fine of up to $250,000.

External Attempts to Corrupt Tax Administration

TIGTA has a statutory obligation to investigate external attempts to corrupt or impede the administration of internal revenue laws. Such attempts include:

- Taxpayers offering bribes to IRS employees to reduce their tax liabilities;
- The use of fraudulent IRS documentation to advance criminal activity;
- Impersonation of IRS officials (in person, telephonically, or via the Internet); and
- Corruption of IRS programs or operations through procurement or contractor fraud.

The increasing reliance on electronic communications and the need to maintain a safe electronic operating environment for the huge task of collecting the nation's revenue present a tremendous challenge to the IRS.

TIGTA is particularly concerned about phishing schemes that rely on e-mail messages falsely purporting to relate to legitimate IRS operations. Some of the messages claim to be from the IRS; others purport to be from legitimate businesses seeking to assist taxpayers in dealing with the IRS. These messages have one thing in common: they solicit personally identifiable information such as Social Security numbers and banking information, which is then used to commit identity fraud. Some tell the recipient that the IRS wants to reward them for having filed early, and their personal and banking information is needed to electronically deposit the money. These schemes also take the form of telephone calls to taxpayers, often from untraceable pre-paid cell phones, notifying the taxpayer of a refund and requesting personal information in order to expedite the deposit electronically.

During this reporting period, the IRS reported 1,176 phishing incidents. TIGTA continues its efforts to educate the public about these abusive schemes and to ensure that misuse of the IRS name, impersonation of an IRS employee, and identity theft incidents are minimized.

The following cases are examples of external attempts to corrupt Federal tax administration that TIGTA conducted during this period:

Wilfredo Ventura Sentenced for Bribery of IRS Agent

On December 17, 2007, Wilfredo Ventura was sentenced in the U. S. District Court, Southern District of Texas, to 21 months of imprisonment, three years of supervised release following imprisonment, and a $100 criminal monetary penalty for bribery of a public official.

According to court documents, on or about October 16, 2006, Mr. Ventura knowingly offered $500 to an IRS revenue agent, with the intent to influence the agent to aid in

committing a fraud against the United States, in violation of the agent's lawful duty as a public official.

Civil Complaint Filed Against Keith O'Brien Slade and Controlled Quality Corporation for Approximately $499,782 in False Claims Against IRS

On October 31, 2007, a civil complaint was filed by the U. S. Attorney's Office in the U. S. District Court, District of Columbia, against the Controlled Quality Corporation, a defunct company formerly doing business in the District of Columbia, and its owner, Keith O'Brien Slade, to recover triple damages and civil penalties under the False Claims Act, 31 U.S.C. §§ 3729-3733.

According to court documents, from approximately June 2001 to February 2004, the defendants had a contract with the Government Printing Office (GPO) to provide printing services. The defendants entered into a contractual agreement with the GPO beginning June 9, 2001, whereby the defendants agreed to prepare and duplicate various documents for GPO customer agencies. The IRS was one of those customer agencies. During the contract period, the defendants were found to be using a subcontractor to perform 100 percent of the printing services awarded to the defendants by the GPO. The defendants then prepared and certified vouchers for payment attesting that they alone prepared and performed the work. These invoices also contained inflated prices used in the production of the printed work for the IRS. The IRS made at least 28 procurements from the defendants; the total amount the IRS paid to the defendants was approximately $499,782, while the defendants paid the subcontractor a sum of approximately $61,678.

Ruth Fallis Sentenced to Three Years of Incarceration and Restitution in Amount of $803,192 to IRS

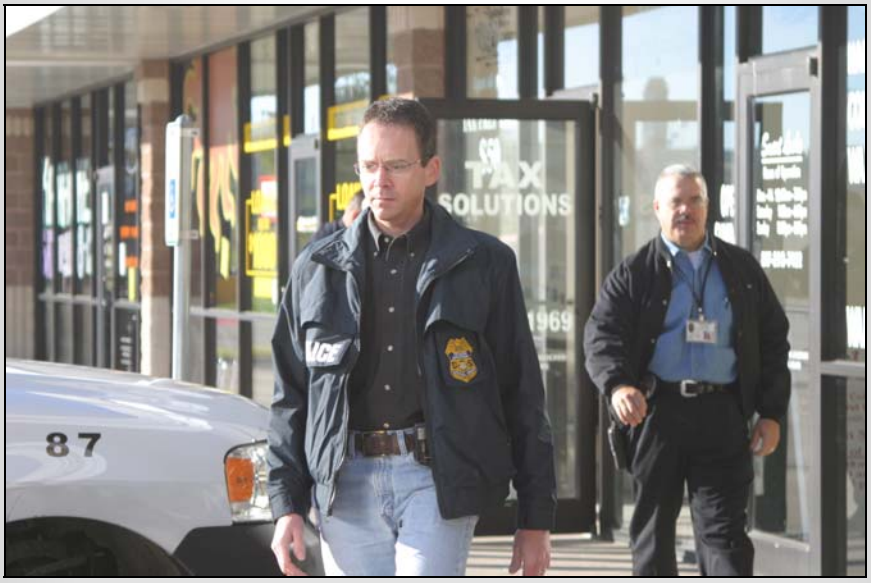
On October 30, 2007, Ruth Fallis was sentenced in the U. S. District Court for the District of Delaware to 36 months of incarceration, three years of supervised release following imprisonment, restitution in the amount of $803,192 to the IRS and $258,534 to an individual, and a special assessment of $200. Ms. Fallis was sentenced after pleading guilty on March 26, 2007, to bank fraud and wire fraud.

According to court documents, between approximately December 8, 2001, and October 2005, Ms. Fallis wrote and negotiated 75 unauthorized checks totaling $557,044.93 from the account of her employer, the Perry Anthony Design Group (PADG). Between approximately January 2002 and October 2005, she kept at least $504,681.22 of PADG's cash receipts that she was responsible for depositing into PADG's account. In order to conceal and execute her scheme to steal from PADG, beginning in 2002, and continuing until the third quarter of 2005, Ms. Fallis deliberately failed to make the quarterly Federal tax deposits on behalf of PADG. In or around the summer of 2005, when the IRS attempted to contact PADG to discuss the lack of payments, Ms. Fallis diverted the IRS's calls and notices to herself so that the owner of PADG would not learn of the tax liability and her scheme to steal from PADG. On June 23, 2005, July 21, 2005, and September 9, 2005, Ms. Fallis diverted the IRS's calls by contacting the IRS in Virginia via telephone from her home in Delaware and impersonating the wife of the owner of PADG.

TAX PREPARER INVESTIGATIONS

TIGTA's efforts to protect the integrity of Federal tax administration extend to investigations of impropriety in the tax preparer community. TIGTA investigations in this area include bribery; extortion; fraud; harassment; threats and assaults against IRS personnel and facilities; improper disclosure; procurement fraud; theft of remittance payments; misuse of Treasury Department names, symbols or emblems; and impersonation of IRS officials.

TIGTA's proactive outreach strategy to tax professionals includes an effort to partner with the tax preparer and practitioner community (enrolled and un-enrolled) in preventing fraud in the tax system. TIGTA has worked diligently to educate tax professionals by providing awareness presentations during professional conferences such as IRS Tax Forums, and by providing input to professional publications utilized by the tax practitioner community. During this reporting period, TIGTA provided 40 presentations to 4,662 tax preparers and practitioners.



Dallas, Texas TIGTA Special Agent William Coull (left) and Crowley Police Department Investigator Richard Chapman (right) executing a search warrant on a Crowley, Texas tax preparation business known as Tax Solutions on October 22, 2007.

Copyrighted photograph by A. J. Narasimhan
courtesy of the Burleson-Crowley Connection, Cleburne, Texas

Individual Charged with Misuse of IRS Symbol

On January 23, 2008, a criminal information was filed in the U.S. District Court for the Central District of California, charging Amanda Evans with one count of misuse of a Department of the Treasury name or symbol.

According to court documents, in connection with a business activity on July 25, 2006, Evans knowingly used the words "Internal Revenue Service" and the symbol of the IRS, in a manner that could reasonably be interpreted and construed as conveying the false impression that her business activity was endorsed, authorized by, and associated with the Department of the Treasury.

James Richards Pleads Guilty to Embezzling IRS Tax Payments from Clients

James Richards pleaded guilty in U.S. District Court for the Western District of Missouri to one count of accepting funds intended for the IRS, one count of evasion of tax assessment, one count of representing himself as a Certified Public Accountant (CPA) in documents submitted to the IRS, and one count of fabricating documents purported to be from the IRS.

According to court documents, Mr. Richards is the owner of Holliday and Associates, a sole proprietorship that performs general accounting services and tax preparation for clients. Mr. Richards routinely asked clients to make payments toward their anticipated tax liability and make the checks out to him or his company. Mr. Richards accepted these estimated tax payments from his clients that were intended for the IRS but failed to make the required tax deposits, pay their estimated payments, or file the required forms with the IRS.

In addition, Mr. Richards made false statements by claiming that he was a CPA in Missouri and representing taxpayers before the IRS based on that status. To conceal his theft, Mr. Richards fabricated IRS documents to stop collection activity for his clients.

IRS CID and TIGTA worked on this case jointly.

Individual Indicted for Theft of Public Money

Jennifer Jackson was indicted on January 17, 2008, in the U.S. District Court for the Southern District of Texas on one count of theft of public money.

According to court documents, on or about May 9, 2005, Ms. Jackson knowingly converted for her own use a cashier's check for $19,749.69, made payable to the IRS for a client's tax payment.

DISTINGUISHED SERVICE AWARDS FOR INVESTIGATION OF LOAN OFFICER AND IRS REVENUE OFFICER IN FRAUDULENT SCHEME

TIGTA Special Agent Angela Druen (right) and IRS Criminal Investigation Division (CID) Special Agent Rodger Keester (center) pose with Thomas P. O'Brien, U. S. Attorney for the Central District of California, (left) after receiving distinguished service awards for their joint investigation of a loan broker who enlisted the aid of an IRS revenue officer to further his fraudulent schemes.

The loan broker paid the IRS employee to obtain sensitive tax information maintained in the IRS electronic environment, which the broker subsequently submitted to the IRS and to lending institutions in furtherance of his fraudulent schemes.

The IRS employee pleaded guilty to one count of violating Title 26, United States Code, Section 7214(A) (2), Offenses by Officers and Employees of the United States, and one count of violating Title 18, United States Code, Section 1001, False Statements. He was sentenced to one year of probation, and assessed a $500 fine and a $200 special assessment.

The loan broker pleaded guilty to one count of each of the following violations: Title 18, United States Code, Section 152 (3), False Statements in Bankruptcy Proceedings; Title 18, United States Code, Section 1029 (a)(2), Unauthorized Use of Access Device; Title 18, United States Code, Section 2, Principals [for aiding and abetting the IRS Revenue Officer to violate 26 U.S.C. 7214(a)(2)]; Title 18, United States Code, Section 1957(a), Money Laundering; and Title 18, United States Code, Section 1341, Mail Fraud. He was sentenced to 51 months in prison followed by three years of supervised release, was ordered to pay $661,695.17 in restitution and a special assessment of $600.

THE TREASURY DEPARTMENT
ALBERT GALLATIN
SECRETARY OF THE TREASURY

AWARDS AND SPECIAL ACHIEVEMENTS

EXECUTIVE DEVELOPMENT PROGRAM GRADUATES

On March 14, 2008, a graduation ceremony was held for the participants in the IRS's Winter 2008 Executive Development (XD) Program. The XD Program is the formal training phase of the IRS's Senior Executive Service Candidate Development Program. TIGTA is participating in this program as a partner with the IRS. Its purpose is to identify outstanding employees with demonstrated leadership competencies, to help participants better understand the strategic vision of the Department of the Treasury as it relates to their future role as an executive, and to prepare them for senior executive positions. Preston Benoit (middle row, second from left), Phil Shropshire (front row, second from left), Deborah Trumbull (front row, third from left), and Nancy Berthold (front row, fourth from left) graduated and are four of six TIGTA managers currently enrolled in the program. TIGTA managers Kenneth Casey and Damon Plummer will attend the Summer 2008 XD Program.

THE TREASURY DEPARTMENT
ALBERT GALLATIN

AUDIT
STATISTICAL REPORTS

REPORTS WITH QUESTIONED COSTS

TIGTA issued two audit reports with questioned costs during this semiannual reporting period.[1] The phrase "questioned cost" means a cost that is questioned because of:

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

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

Reports with Questioned Costs			
Report Category	**Number**	**Questioned Costs (in thousands)**	**Unsupported Costs (in thousands)**
1. Reports with no management decision at the beginning of the reporting period	16	$168,237	$82,853
2. Reports issued during the reporting period	2	$182	$0
3. Subtotals (Item 1 plus Item 2) [2]	**18**	**$168,419**	**$82,853**
4. Reports for which a management decision was made during the reporting period[3]			
a. Value of disallowed costs	2	$73	$0
b. Value of costs not disallowed	7	$2,618	$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	**10**	**$165,728**	**$82,853**
6. Reports with no management decision within 6 months of issuance	9	$167,568	$82,853

[1] See Appendix II for identification of audit reports involved.
[2] Difference due to rounding
[3] IRS management disallowed only a part of the questioned cost for one report.

REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

TIGTA issued one report with recommendations that funds be put to better use during this semiannual reporting period.[1] The phrase "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:

- reductions in outlays;
- deobligations of funds from programs or operations;
- costs not incurred by implementing recommended improvements related to operations;
- avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements;
- preventing erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; and
- any other savings that are specifically identified.

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

Reports with Recommendations That Funds Be Put To Better Use		
Report Category	**Number**	**Amount (in thousands)**
1. Reports with no management decision at the beginning of the reporting period	0	$0
2. Reports issued during the reporting period	1	$61
3. Subtotals (Item 1 plus Item 2)	**1**	**$61**
4. Reports for which a management decision was made during the reporting period a. Value of recommendations to which management agreed		
i. Based on proposed management action	1	$61
ii. Based on proposed legislative action	0	$0
b. Value of recommendations to which management did not agree	0	$0
5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)	**0**	**$0**
6. Reports with no management decision within 6 months of issuance	0	$0

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

REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION

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

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

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

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.

Taxpayer Rights and Entitlements at Risk: The protection of due process rights granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise when filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for, and issuance of, refunds (entitlements) are also included in this category, such as when taxpayers legitimately assert that they overpaid their taxes.

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

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

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

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

The number of taxpayer accounts and dollar values shown in the following chart were derived from analyses of historical data, and are thus considered potential barometers of the impact of audit recommendations. Actual results will vary depending on the timing and extent of management's implementation of the corresponding corrective actions, and the number of accounts or subsequent business activities 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			
Outcome Measure Category	**Number of Reports[1]**	**Number of Taxpayer Accounts**	**Dollar Value (in thousands)**
Increased Revenue	3	65,193	$149,510
Revenue Protection	2	349	$1,527
Reduction of Burden on Taxpayers	3	1,150,978	
Taxpayer Rights and Entitlements at Risk	2	11	$733
Taxpayer Privacy and Security	1		
Inefficient Use of Resources	2		$20,500
Reliability of Management Information	5	63	$41
Protection of Resources			

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

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

- Increased Revenue: Reference Number 2008-40-087, and
- Inefficient Use of Resources: Reference Number 2008-10-025

The following reports contained quantifiable impacts in addition to the number of taxpayer accounts and dollar value:

- Taxpayer Rights and Entitlements and Taxpayer Privacy and Security: Reference Number 2008-30-082, and
- Reliability of Management Information: Reference Numbers 2008-20-002, 2008-10-025, and 2008-20-028.

INVESTIGATIONS STATISTICAL REPORTS

Significant Investigative Achievements October 1, 2007 – March 31, 2008	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,169
Complaints against Non-Employees	2,464
Total Complaints/Allegations	**4,633**
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,798
In Process within TIGTA[1]	359
Referred to IRS for Action	287
Referred to IRS for Information Only	822
Referred to a Non-IRS Entity[2]	7
Closed with No Referral	1,025
Closed with All Actions Completed	335
Total Complaints	**4,633**
Investigations Opened and Closed	
Total Investigations Opened	1,728
Total Investigations Closed	1,795
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	$45,951
Court Ordered Fines, Penalties and Restitution	$11,460,982
Out-of-Court Settlements	0
Total Financial Accomplishments	**$11,506,933**

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

Note: The IRS made 75 referrals to TIGTA that would more appropriately be handled by the IRS, and therefore were returned to the IRS. These are not included in the total complaints shown above.

Status of Closed Criminal Investigations			
Criminal Referrals[1]	**Employee**	**Non-Employee**	**Total**
Referred – Accepted for Prosecution	30	66	**96**
Referred – Declined for Prosecution	359	268	**627**
Referred – Pending Prosecutorial Decision	31	79	**110**
Total Criminal Referrals	**420**	**413**	**833**
No Referral	**456**	**508**	**964**

[1] Criminal referrals include both Federal and State dispositions.

Criminal Dispositions[2]			
	Employee	**Non-Employee**	**Total**
Guilty	17	41	**58**
Nolo Contendere (no contest)	1	1	**2**
Pre-trial Diversion	12	3	**15**
Deferred Prosecution[3]	0	0	**0**
Not Guilty	0	0	**0**
Dismissed[4]	2	4	**6**
Total Criminal Dispositions	**32**	**49**	**81**

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

Administrative Dispositions on Closed TIGTA Investigations[5]	
	Total
Removed, Terminated or Other	336
Suspended/Reduction in Grade	116
Oral or Written Reprimand/Admonishment	127
Closed – No Action Taken	104
Clearance Letter Issued	76
Employee Resigned Prior to Adjudication	123
Non-Internal Revenue Service Employee Actions[6]	352
Total Administrative Dispositions	**1,234**

[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 Opened and Closed table.
[6] Administrative actions taken by the IRS against non-IRS employees.

APPENDIX I
STATISTICAL REPORTS - OTHER

AUDIT REPORTS WITH SIGNIFICANT UNIMPLEMENTED CORRECTIVE ACTIONS

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

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2001-30-052	Tax Compliance Initiatives	March 2001	12/15/10	***Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income*** F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2003-10-094	Erroneous and Improper Payments	March 2003	06/15/08	***Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected*** F-1, R-2, P-1. Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that feedback is provided regarding program effectiveness. Also, analyses of the Fraud Detection Centers' control listing data should be analyzed to ensure reviews are done and accounts are resolved.
2003-40-139	Tax Compliance Initiatives	June 2003	07/15/08	***Opportunities Exist to Improve the Administration of the Earned Income Tax Credit*** F-1, R-2, P-1. Establish a consistent method to measure progress toward the Earned Income Tax Credit (EITC) Program's long-term goals.
2003-30-176	Tax Compliance Initiatives	August 2003	01/15/09	***Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure*** F-1, R-2, P-1. Gather pertinent information concerning the affected proposed procedure to reduce the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.
2004-20-001	Systems Modernization of the IRS	October 2003	12/31/10	***Risks Are Mounting As the Integrated Financial System Project Team Strives to Meet An Aggressive Implementation Date*** F-2, R-1, P-1. Ensure that the disaster recovery environment is completely built-out and tested.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2004-30-038	Tax Compliance Initiatives	January 2004	07/15/08	***Access to the Toll-Free Telephone System Was Significantly Improved in 2003, but Additional Enhancements Are Needed*** F-3, R-1, P-1. Develop an Activity Based Costing system that reliably captures and reports both the total cost and the cost-per-call of providing services on each toll-free product line.
2004-30-068	Tax Compliance Initiatives	March 2004	07/15/08	***Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program*** F-2, R-1, P-1. Develop standard risk-based case selection criteria that would provide minimum requirements and parameters for case selection.
2004-40-098	Erroneous and Improper Payments	May 2004	12/15/08	***Better Use of the National Account Profile During Returns Processing Can Eliminate Erroneous Payments*** F-2, R-1, P-1. Conduct studies on the accuracy of EITC claims on tax returns for individuals that have been claimed for EITC purposes that are 20 or more years older than the primary taxpayer, or are listed as children that are up to 19 years older than the primary taxpayer.
2004-20-131	Security of the IRS	September 2004	04/30/12	***The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness*** F-2, R-4, P-1. Develop and implement a reasonable approach for reviewing audit trails over major applications.
2005-40-026	Providing Quality Taxpayer Service Operations	February 2005	12/31/10 12/31/10	***Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement*** F-1, R-1, P-4. Develop a process to ensure that only authorized personnel have access to IRS.gov content. F-1, R-2, P-1, P-2. Enhance the IRS' content management software application to provide the ability to identify specific content accessed or revised by individual users.
2005-20-024	Security of the IRS	March 2005	12/31/10	***The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses*** F-1, R-1, P-1, P-5. Report a disaster recovery program material weakness to the Department of the Treasury as part of the IRS' Federal Managers' Financial Integrity Act of 1982 annual evaluation of controls and include any new or currently underway activities in the corrective action plan.
2005-10-107	Human Capital	July 2005	10/15/08 10/15/08 10/15/08 10/15/08	***Improved Policies and Guidance Are Needed for the Telework Program*** F-1, R-1, P-1. Ensure an IRS-wide Flexiplace Program policy is developed and implemented that addresses all the elements recommended by the Office of Personnel Management (OPM). F-2, R-1, P-1. Implement guidelines to assist managers in evaluating employees' abilities to participate in the Flexiplace Program without a loss in productivity. F-2, R-2, P-1. Ensure Flexiplace Program training is provided as needed to help address productivity concerns. F-2, R-3, P-1. Assess the logistical support and equipment needs of Flexiplace Program participants to help ensure there is no loss in productivity.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2005-40-110	Providing Quality Taxpayer Service Operations	July 2005	10/15/08 06/15/08	***The Effectiveness of the Taxpayer Assistance Center Program Cannot Be Measured*** F-1, R-1, P-1. Enhance the management information system to capture the number of taxpayers served, the numbers and types of services provided, and the related resources. F-1, R-3, P-1. Develop a process that includes routine assessments of Taxpayer Assistance Center (TAC) operations to ensure the TACs are optimally located and the services provided at the TACs are the most effective and cost efficient.
2005-10-129	Providing Quality Taxpayer Service Operations	September 2005	05/31/10	***Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program*** F-1, R-1, P-2. Establish goals and performance measures for the Low Income Tax Clinic program to assist Congress and IRS in evaluating the success of the program.
2005-10-149	Human Capital	September 2005	05/15/08	***The Internal Revenue Service Does Not Adequately Assess the Effectiveness of Its Training*** F-2, R-1, P-2. Ensure all IRS components follow established procedures to evaluate training in order for the IRS to comply with the training assessment requirement of the Federal Workforce Flexibility Act of 2004.
2005-30-154	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2005	05/15/08	***The Clarity of Math Error Notices Has Been Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices*** F-1, R-2, P-1. Revise tax statement tables contained on notices to include specific amounts from at least some line items on which taxpayers made errors on their tax returns.
2006-40-007	Erroneous and Improper Payments	November 2005	04/15/08	***Efforts to Prevent Improper Tax Benefits Resulting From Multiple Uses of Taxpayer Identification Numbers Can Be Improved*** F-1, R-1, P-2. Lead a collaborative effort to identify a workable solution to resolve multiple identification number use cases where an identification number is used as a primary identification number on one return and a secondary identification number on another return.
2006-40-061	Providing Quality Taxpayer Service Operations	March 2006	06/15/08	***The Taxpayer Assistance Center Closure Plan Was Based on Inaccurate Data*** F-1, R-1, P-1. Ensure data used in the Model or any decision-making tool are accurate and reliable and have been validated before using them to make decisions regarding the TAC Program.
2006-10-066	Erroneous and Improper Payments	March 2006	07/15/08	***The Office of Professional Responsibility Can Do More to Effectively Identify and Act Against Incompetent and disreputable Tax Practitioners*** F-1, R-3, P-1. Develop a method to identify representatives on the Centralized Authorization File that does not require representatives to use Social Security numbers on Form 2848.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2006-30-132	Tax Gap	September 2006	02/15/09 02/15/09	***Additional Enhancements Could Improve Tax Compliance of Employees Who Receive Tips*** F-3, R-2, P-1. Ensure the SWETRS program remains funded through completion and include the Gaming tip agreements in the Tip Agreement database. F-4, R-1, P-1. Ensure the results of initial testing of the ATIP Revenue Procedure are analyzed and consider developing similar Revenue Procedures for small businesses in other industries to increase the chance of improving the tip income reporting compliance.
2006-20-166	Security of the IRS	September 2006	10/15/08 P-2: 06/15/08 P-3: 04/15/09	***The Monitoring of Privacy Over Taxpayer Data Is Improving, Although Enhancements Can Be Made to Ensure Compliance With Privacy Requirements*** F-2, R-1, P-2, P-3, P-4. Initiate a program providing for the routine evaluation of employee training activities relative to current privacy policy requirements and develop a system for the tracking and monitoring of these activities. F-2, R-2, P-2, P-3. Reinforce the importance of Privacy Impact Assessment case documentation with specific instructions or case models and implement a compliance review process to assess whether IRS business units are adhering to privacy regulations, given limited resources and staff knowledge in conducting these reviews.
2006-40-172	Security of the IRS	September 2006	P-1: 05/01/08 P-2: 09/15/08	***Accountability Over Volunteer Income Tax Assistance Program Computers Continues to Be a Problem*** F-1, R-2, P-1, P-2. Integrate the Information Technology Asset Management System and SPEC Taxpayer Assistance Reporting System to link the information between the two and ensure all VITA Program computers are properly and efficiently controlled
2006-20-177	Security of the IRS	September 2006	10/15/08 04/15/08	***Improvements Are Needed to Ensure the Use of Modernization Applications Is Effectively Audited*** F-2, R-2, P-1. Modify modernized system audit trails to comply with Security Audit and Analysis System standards, ensuring data collected are valid and arranged in the proper format. F-2, R-3, P-1. Reevaluate SAAS procedures and processes to ensure the new SAAS requirements are incorporated and responsibilities for reviewing modernization audit trails are adequately defined.
2006-20-178	Security of the IRS	September 2006	10/01/08	***Complete Certification and Accreditation Is Needed to Ensure the Electronic Fraud Detection System Meets Federal Government Security Standards*** F-3, R-1, P-1. Develop a Business Impact Analysis for the Enterprise Computing Center – Memphis that places the EFDS at an appropriate priority among the other major applications residing at the Enterprise Computing Center – Memphis.
2007-40-026	Providing Quality Taxpayer Service Operations	January 2007	04/15/09	***Improvements to the E-Help Desk Are Needed to Support Expanding Electronic Products and Services*** F-1, R-4, P-2, P-3. Develop processes and procedures to ensure management information is complete and accurate.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2007-20-048	Security of the IRS	March 2007		***The Internal Revenue Service Is Not Adequately Protecting Taxpayer Data on Laptop Computers and Other Portable Electronic Media Devices***
			07/01/08	F-3, R-2, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure encryption solutions are being used by employees and sensitive data are encrypted properly.
			04/01/08	F-5, R-1, P-1. Implement procedures to encrypt backup data sent to non-IRS facilities.
2007-30-049	Tax Compliance Initiatives	March 2007		***The Internal Revenue Service Needs to Improve Procedures to Identify Noncompliance With the Reporting Requirements for Noncash Charitable Contributions***
			01/15/09	F-2, R-1, P-3. Develop procedures to address returns without required substantiation for noncash charitable contributions.
2007-40-057	Providing Quality Taxpayer Service Operations	March 2007		***Steps Can Be Taken to Reduce the Challenges Taxpayers With Vision Impairments Face When Attempting to Meet Their Tax Obligations***
			05/15/08	F-1, R-1, P-1. Consider eliminating the income restriction on free tax preparation of simple tax returns at Taxpayer Assistance Centers for taxpayers with disabilities and allow them to schedule appointments in advance for tax return preparation assistance.
			05/15/08	F-2, R-1, P-2. Conduct a study to determine the current and future needs and required services for taxpayers with vision impairments.
			05/15/09	F-2, R-2, P-1. Using the results of the study, develop a long-term strategy to assist taxpayers with vision impairments, including seniors.
			01/15/10	F-3, R-1, P-1. Provide additional viewing options on IRS.gov, such as scalable fonts, enlarged text size, or background colors to make it more accessible to taxpayers with vision impairments.
2007-10-061	Tax Exempt Organizations	March 2007		***Tax-Exempt Hospital Industry Compliance With Community Benefit and Compensation Practices Is Being Studied, but Further Analyses Are Needed to Address Any Noncompliance***
			09/15/08	F-1, R-1, P-1. Ensure the interim report includes an assessment of how tax-exempt hospitals are providing a community benefit, as well as any planned actions that is determined necessary to address the community benefit standard.
2007-30-062	Tax Compliance Initiatives	March 2007		***Social Security and Medicare Taxes Are Not Being Properly Assessed on Some Tips and Certain Types of Wage Income***
			01/15/09	F-1, R-1, P-5. Use Form 4137 exclusively for calculating Social Security and Medicare taxes on tip income. Revise the form to capture the data necessary to assess the employer's share of Social Security and Medicare taxes on unreported tip income.
			01/15/09	F-1, R-2, P-1, P-2. Develop a compliance program to ensure the revised Form 4137 is used effectively to identify and assess the employer's share of Social Security and Medicare taxes on unreported tip income.
			01/15/09	F-3, R-2, P-1, P-2. Develop a compliance program to help ensure only qualifying individuals use the new form and the appropriate amounts of Social Security and Medicare taxes are assessed for self-employed taxpayers or employers that are misclassifying their employees.
2007-10-074	Using Performance and Financial Information for Program and Budget Decisions	April 2007		***More Careful Monitoring of Billings for Working Capital Fund Administrative Services Is Needed***
			04/15/08	F-1, R-1, P-1. Develop procedures requiring that working capital fund (WCF) billings be reviewed and certified as accurate before entry into IRS records as valid expenses.
			04/15/08	F-2, R-1, P-1. Revise procedures to require that WCF expenditures be allocated only to obligations directly related to the expenditures.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2007-10-076	Erroneous and Improper Payments	May 2007		***Actions Have Been Taken to Address Deficiencies in the Questionable Refund Program; However, Many Concerns Remain, With Millions of Dollars at Risk***
			01/31/09	F-2, R-2, P-1. Initiate a legislative proposal to exempt the IRS from issuing a deficiency notice for disallowance of EITC and other refundable credits when the deficiency and credits are the result of fraudulent returns, if its current efforts through a regulatory change are not successful.
			12/15/08	F-4, R-1, P-1. Reemphasize the requirement to maintain documentation and/or notations to describe how the Fraud Detection Centers determined fraud.
2007-10-082	Tax Exempt Organizations	May 2007		***Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified***
			07/15/08	F-1, R-1, P-1. Develop and implement a long-term strategy to automate the matching of Forms 1023 and 990 information against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations.
			01/15/09	F-1, R-2, P-1. Evaluate whether more comprehensive terrorist watch lists should be used in conjunction with the Department of the Treasury's Office of Foreign Assets Control list during the screening of tax-exempt filing data to improve the identification of organizations and/or individuals potentially involved in terrorist-related activities.
2007-20-080	Systems Modernization of the IRS	July 2007		***Vital Decisions Must Be Made to Ensure Successful Implementation of Customer Account Data Engine Capabilities***
			07/01/08	F-3, R-1, P-1. Review alternative design solutions and identify process improvements for the Project.
2007-20-107	Security of the IRS	July 2007		***Employees Continue to Be Susceptible to Social Engineering Attempts That Could Be Used by Hackers***
			06/15/08	F-1, R-1, P-1. Continue security awareness activities to remind employees of the potential for social engineering attempts and the need to report these incidents.
			10/15/08	F-1, R-2, P-1. Conduct internal social engineering tests on a periodic basis to increase employees' security awareness and the need to protect usernames and passwords.
2007-20-123	Systems Modernization of the IRS	July 2007		***While Improvements Continue in Contract Negotiation Methods and Management Practices, Inconsistencies Need to Be Addressed***
			03/01/09	F-2, R-1, P-1. Collect and review lessons learned from the use of independent estimates to determine whether independent estimates can become a consistently more useful negotiations tool.
			06/15/08	F-3, R-2, P-1. Ensure improvements and training opportunities for the use of performance standards are identified and coordinate with other IRS organizations to encourage the use of performance standards for systems development task orders outside of the control of the Modernization and Information Technology Services organization.
			06/15/08	F-3, R-4, P-1. Collect and disseminate guidance for documenting contractor performance and coordinate with other IRS organizations to communicate the importance of documenting contractor performance for systems development task orders outside of the control of the Modernization and Information Technology Services organization.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2007-20-121	Systems Modernization of the IRS	August 2007	12/31/10	***Annual Assessment of the Business Systems Modernization Program*** F-1, R-1, P-1. Continue to address Modernization program corrective actions from TIGTA and Government Accountability Office reports through the Highest Priority Initiatives process.
2007-40-125	Using Performance and Financial Information for Program and Budget Decisions	August 2007	04/15/08	***Taxpayer Service Savings Estimates for Fiscal Years 2006 and 2007 Could Not Be Validated*** F-1, R-1, P-1. Develop a thorough process for compiling the data used for the IRS' budget requests to help ensure the accuracy of the estimates and to facilitate a better understanding of the impact of budget reductions on operations.
2007-40-164	Providing Quality Taxpayer Service Operations	August 2007	10/15/08	***The Internal Revenue Service Provides Helpful Tax Law Assistance, But Still Has Problems With Tax Return Preparation Assistance*** F-2, R-2, P-1. Consider revising the appointment procedures to alleviate taxpayer burden, i.e., having to return to the TACs multiple times to schedule appointments.
2007-10-166	Tax Compliance Initiatives	August 2007	09/15/08 09/15/08 09/15/08	***Efforts to Collect Delinquent Employment Taxes Owed by Government Entities Could Be Improved*** F-1, R-2, P-2. Reinforce IRS procedures requiring that revenue officers and/or their managers contact Federal, State, local governments office specialists designated for their respective offices prior to pursuing collection actions against government entities and work with the FSLG office to explore the feasibility of preparing a quarterly report of new State and local government entities assigned to the Collection Field function. F-2, R-1, P-2. Ensure comprehensive guidelines and procedures are developed to guide the assignment, control, and resolution of Federal Government entity delinquency cases. F-2, R-2, P-2. Reinforce existing IRS procedures requiring that revenue officers notify the appropriate SB/SE Division Territory manager before issuing a final notice of the intent to levy to a State or local government entity.
2007-30-172	Complexity of the Tax Law	September 2007	08/15/08	***Like-Kind Exchanges Require Oversight to Ensure Taxpayer Compliance*** F-1, R-1, P-1. Conduct a study of issue-related returns selected by the National Research Program.
2007-30-173	Tax Compliance Initiatives	September 2007	07/15/08	***Significant Tax Administration Challenges Exist in Determining Whether Individual Returns With Schedule C Losses Are Engaged in Tax Abuse*** F-1, R-2, P-1. Continue to coordinate with practitioner organizations to encourage compliance with existing provisions.

OTHER STATISTICAL REPORTS

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	**Result for TIGTA**
Access to Information Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.	As of March 31, 2008, there were no instances in which information or assistance requested by the Office of Audit was refused.
Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.	As of March 31, 2008, no reports were issued in which significant recommendations were disputed.
Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	As of March 31, 2008, no significant management decisions were revised.
Audit Reports Issued in the Prior Reporting Period With No Management Response 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, 2008, there were no prior reports in which management's response was not received.
Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.	TIGTA's Office of Chief Counsel reviewed 175 proposed regulations and legislative requests during this reporting period.

APPENDIX II
AUDIT PRODUCTS

OCTOBER 1, 2007 – MARCH 31, 2008

Inspector General Congressional Testimony	
Reference Number	**Hearing Title**
February 2008	
2008-OT-074	Hearing Before the Subcommittee on Federal Workforce, Postal Service and the District of Columbia Committee on Oversight and Government Reform, U.S. House of Representatives – The IRS' Pay for Performance System

Audit Products	
Reference Number	**Report Title**
October 2007	
2008-3E-003	Roll-up Report: Issues Confronting the Federal Tax System
2008-30-001	Identification of Unreported Self-Employment Taxes Can Be Improved (Increased Revenue, $95,118,395)
2008-40-004	The Customer Account Data Engine Release 2.2 Posted Tax Return Information Accurately (Revenue Protected: $400,000 impacting 338 taxpayers)
November 2007	
2008-1C-005	Report on Audit of Post Award Survey of Subcontractor's Accounting and Billing Systems
2008-1C-006	Report on Audit of Facilities Utilization
2008-20-002	Efforts to Update Aging Computer Hardware Are Underway, but Program Improvements Are Needed to Minimize Risks (Reliability of Information: $50 million in lost revenue incorrectly attributed to aging equipment)
2008-20-026	The Internal Revenue Service's Compliance With the Federal Information Security Management Act (Non-Intelligence – National Security Systems) for Fiscal Year 2007
2008-1C-007	Incurred Costs Audit of Contractor's Calendar Year 2004 (Questioned Costs: $21,319)
2008-1C-008	Report on Concurrent Audit of Adequacy and Compliance of Revised Disclosure Statement
2008-1C-009	Report on Audit of Information Technology System General Internal Controls
2008-1C-010	Report on Followup Audit of Labor Accounting System
2008-1C-011	Incurred Costs Audit for Fiscal Year Ending December 31, 2004
2008-1C-012	Report on Post Award Accounting System Review
2008-1C-013	Audit Report for Post Award Accounting System
2008-1C-014	Report on Audit of Billing System
2008-1C-015	Audit Report on Compliance With Cost Accounting Standard 409, Depreciation of Tangible Capital Assets
2008-1C-016	Report on Audit of Adequacy and Compliance of the Contractor's Fiscal Year 2006 Revised Disclosure Statement (Version 06-03), Effective September 29, 2006

2008-1C-017	Audit Report on Compliance With Cost Accounting Standard 407, Use of Standard Costs for Material and Labor
2008-1C-018	Report on Audit of Post Award Survey of Subcontractor's Accounting and Billing Systems
2008-1C-019	Report on Post Award Accounting System Review
December 2007	
2008-10-025	Management Oversight Improved, but Expected Benefits and Capabilities for the Tax Exempt Determination System Release 2 Were Not Delivered (Reliability of Information: $46.8 million of benefits and costs not accurately tracked; Inefficient Use of Resources: $17 million in costs for which the IRS received no benefit)
2008-1C-020	Accounting System Review
2008-1C-021	Report on Audit of Labor Floor Checks and Interviews
2008-1C-022	Audit of Cost Accounting Standard 411, Accounting for Acquisition Costs of Material
2008-1C-023	Report on Audit of Compliance With Cost of Money As an Element of the Cost of Facilities Capital
2008-1C-024	Report on Purchase Existence and Consumption
2008-20-029	Internal Revenue Service Databases Continue to Be Susceptible to Penetration Attacks
2008-20-030	Lack of Proper IRS Oversight of the Department of the Treasury HSPD-12 Initiative Resulted in Misuse of Federal Government Resources (Inefficient Use of Resources: $3.5 million in purchases not used)
2008-30-027	Tax Examiners Did Not Always Resolve Return Delinquency Cases, and Computer Checks Did Not Identify Unfiled Returns
2008-1C-031	Audit of Cost Accounting Standard 415, Accounting for the Costs of Deferred Compensation
2008-1C-032	Performance of Labor Floor Checks
2008-1C-033	Audit of Cost Accounting Standard 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives
2008-10-051	Appropriate Actions Were Taken to Prepare for the Receipt of New Filing Information From Smaller Tax-Exempt Organizations (Taxpayer Burden: 577,713 corrected letters issued)
2008-10-052	The Tax Exempt Bonds Office Has Established Controls, but Improvements Are Needed to Prevent Improprieties
2008-10-054	Invoice Audit of Fees Paid Under the Private Debt Collection Initiative
January 2008	
2008-10-055	The Office of Appeals Closed Case Files Are Overwhelming Onsite Storage Space (Funds Put to Better Use: $60,570)
2008-20-028	The Modernization and Information Technology Services Organization's Competitive Sourcing Program Needs Improvement (Reliability of Information: support not provided for the reported savings of $77,472,000 and 100 million printed pages)
2008-1C-034	Audit of Compliance With Cost Accounting Standard 418, Allocation of Direct and Indirect Costs
2008-1C-035	Post Award Accounting System Audit
2008-1C-036	Report on Audit of Post Award Accounting System
2008-1C-037	Report on Compliance With Cost Accounting Standard 418, Allocation of Direct and Indirect Costs
2008-1C-038	Audit of Accounting System Post Award
2008-1C-039	Report on Audit of Post Award Accounting System
2008-1C-040	Incurred Costs Audit for Fiscal Years 2004 and 2005
2008-10-058	Attestation Review of the Internal Revenue Service's Fiscal Year 2007 Annual Accounting

	of Drug Control Funds and Related Performance
February 2008	
2008-40-059	The Taxpayer Assistance Blueprint Phase 2 Was Generally Reliable, but Oversight of the Survey Design Needs Improvement
2008-1C-041	Report on Post-Contract Award Accounting System Audit
2008-1C-042	Report on Post-Award Review of Subcontractor's Accounting System
2008-1C-047	Report on Post-Award Accounting System Review
2008-1C-048	Report on Post-Award Accounting System Review
2008-1C-049	Report on Post-Award Audit of Accounting System
2008-30-072	The Baltimore Collection Field Function Office Properly Controlled Form 809 Receipt Books and Timely Transmitted Remittances for Processing
2008-1C-043	Post-Award Accounting System Review
2008-1C-044	Report on Post-Award Accounting System Review
2008-1C-045	Report on Audit of Fiscal Year 2008 Forward Pricing Rates
2008-1C-046	Report on Compliance With Cost Accounting Standard 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives
2008-1C-050	Report on Fiscal Year 2007 Labor Floor Checks
2008-40-062	Processing of Carryback Loss Claims Needs to Be Improved to Ensure Taxpayers Receive Accurate Refunds (Increased Revenue: $1,126,501 impacting 11 taxpayers; Taxpayer Rights and Entitlements: $732,941 impacting 9 taxpayers)
2008-30-060	The Internal Revenue Service Needs to Emphasize Limited Use of a Collection Suspension Code That Can Allow Inappropriate Refunds
2008-20-061	Disaster Recovery Issues Have Not Been Effectively Resolved, but Progress Is Being Made
March 2008	
2008-20-053	The Account Management Services Project Is Meeting Its Development Goals
2008-10-075	The Published Guidance Program Needs Additional Controls to Minimize Risks and Increase Public Awareness
2008-20-076	Improvements Are Needed to the Information Security Program Governance Process
2008-30-056	A More Strategic Approach Could Enhance the Workers' Compensation Program Return-to-Work Efforts
2008-10-057	Performance Measures and Improved Case Tracking Would Help the Exempt Organizations Function Better Allocate Resources (Reliability of Information: 63 cases inaccurate cases)
2008-20-077	Actions Are Needed to Improve the Effectiveness of the Physical Security Program
2008-1C-063	Report on Post-Award Accounting System Review
2008-1C-064	Noncompliance With Cost Accounting Standard 401, Consistency in Estimating, Accumulating, and Reporting Costs
2008-1C-066	Report on Audit of Direct Costs for TIRNO-00-D-00014 and TIRNO-06-D-00026 (Questioned Costs: $160,186)
2008-1C-067	Results of Evaluation of Fiscal Year 2003 Cumulative Allowable Costs Worksheets
2008-1C-065	Incurred Costs Audit for Fiscal Year Ended March 31, 2004
2008-10-073	Controls and Performance Measures for the Records Management Program Need to Be Improved
2008-40-089	Increasing Federal and State Cooperation and Promoting Electronic Filing Would Improve Administration of Taxes Used to Maintain the Nation's Highways (Taxpayer Burden: Encouraging the Alternate Proof of Payment option would benefit 571,936 taxpayers)

2008-40-086	Outreach Has Improved, but More Action Is Needed to Effectively Address Employment-Related and Tax Fraud Identity Theft (Increased Revenue: $2.2 million; Taxpayer Burden: 1,329 taxpayers receiving unnecessary contacts)
2008-20-071	Inadequate Security Controls Over Routers and Switches Jeopardize Sensitive Taxpayer Information
2008-20-078	Private Collection Agencies Adequately Protected Taxpayer Data
2008-30-082	Fiscal Year 2008 Statutory Review of Compliance With Lien Due Process Procedures (Taxpayer Rights and Entitlements: 76,984 notices untimely mailed, proof of mailing not located or not sent to authorized representatives and notices not sent to 2 taxpayers; Taxpayer Privacy and Security: 9,057 notices sent to unauthorized representatives)
2008-40-090	Fiscal Year 2008 Statutory Review of Restrictions on Directly Contacting Taxpayers
2008-40-087	Individual Retirement Account Contributions and Distributions Are Not Adequately Monitored To Ensure Tax Compliance (Increased Revenue: $52.2 million impacting 51,114 taxpayers)
2008-10-092	Procurement's Control Environment Was Ineffective and Did Not Prevent Overpayments to Contractors (Reliability of Information: Corrective actions valued at $41,432 were closed before ensuring that questionable charges were recovered)
2008-10-096	The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan As of December 31, 2007
2008-40-099	Fiscal Year 2008 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns
2008-40-100	Interim Results of the 2008 Filing Season

APPENDIX III
TIGTA'S STATUTORY REPORTING REQUIREMENTS

TIGTA issued 11 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2008, TIGTA will complete its tenth round of statutory reviews that are required annually by the IRS Restructuring and Reform Act of 1998 (RRA 98). TIGTA will also complete its annual review of the Federal Financial Management Improvement Act of 1996 and the Office of National Drug Control Policy Detailed Accounting Submission and Assertions. The following table reflects the FY 2008 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS' compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	Audit in report writing phase.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	Requires TIGTA to evaluate the IRS' compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.	***Reference No. 2008-40-090, March 2008*** The IRS' Internal Revenue Manual provides employees guidance to help ensure compliance with the direct contact provisions of the I.R.C. In addition, the IRS has informed taxpayers of these rights through various IRS publications. However, this is the tenth year that TIGTA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither TIGTA nor the IRS could readily identify cases in which a taxpayer requested a representative or the IRS contacted the taxpayer directly and improperly bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and there is no legal requirement for the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	***Reference No. 2008-30-082, March 2008*** The IRS may not have complied with the law in all cases. TIGTA's review of a statistically valid sample of 150 Federal Tax Lien cases identified 145 cases (97 percent) for which the IRS did mail lien notices correctly and in a timely manner, as required by I.R.C. § 6320 and internal procedures. For the other five lien notices (three percent), we could not determine if the law was complied with because the IRS could not provide proof of mailing. When an initial lien notice is returned because it could not be delivered and a different address is available for the taxpayer, the IRS does not always meet its statutory requirement to send the lien notice to the taxpayer's last known address. For 29 (seven percent) of 400 cases, employees did not research IRS computer systems for different addresses. For 104 (26 percent) of the 400 cases, the research was not performed within five business days. TIGTA also identified two cases for which a new lien notice should have been sent to the taxpayer at the updated address because the IRS systems listed the address prior to the lien filing. These two cases could involve legal violations because the IRS did not meet its statutory requirement of sending lien notices to the taxpayer's last known address. Also, the IRS did not always follow its own internal guidelines for notifying taxpayer representatives of the filing of lien notices. For 12 (40 percent) of the 30 cases in which the taxpayer had an authorized representative at the time of the lien actions, the IRS did not notify the taxpayer's representative of the lien filing. In addition, in two cases, it sent notifications to representatives not authorized to receive such information.
Extensions of the Statute of Limitations for Assessment of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501(c)(4)(B)	Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.	Audit fieldwork in progress.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Levies I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6330 regarding levies.	Audit in report writing phase.
Collection Due Process I.R.C. § 7803(d)(1)(A)(iii) and (iv)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.	Audit fieldwork in progress.
Seizures I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.	Audit in report writing phase.
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.	Audit fieldwork in progress.
Disclosure of Collection Activities With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)	Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	***Reference No. 2008-40-099, March 2008*** IRS procedures provide employees sufficient guidance for handling joint filer collection activity information requests. However, this is the tenth year that TIGTA could not determine whether the IRS is complying with the statutory requirements for responding to written collection activity information requests from joint filers. IRS management information systems do not separately record or monitor joint filer requests, and there is no legal requirement for the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.
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 are shown on page 41 of this report.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996 I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 Section 3466 of RRA 98	Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.	Audit fieldwork in progress.
Denial of Requests for Information I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)	Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).	Audit fieldwork in progress.
Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)	Requires TIGTA to evaluate the IRS' adequacy and security of its technology.	***Information Technology Reviews:*** Reference Number 2008-20-002, November 2007 Reference Number 2008-20-028, January 2008 Reference Number 2008-20-053, March 2008 ***Security Reviews:*** Reference Number 2008-20-026, November 2007 Reference Number 2008-20-029, December 2007 Reference Number 2008-20-030, December 2007 Reference Number 2008-20-061, February 2008 Reference Number 2008-20-071, March 2008 Reference Number 2008-20-076, March 2008 Reference Number 2008-20-077, March 2008 Reference Number 2008-20-078, March 2008
Federal Financial Management Improvement Act of 1996 (FFMIA) 31 U.S.C. § 3512	Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements, or establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.	***Reference No. 2008-10-096, March 2008*** TIGTA determined that no intermediate target dates were missed on the 35 open remedial actions. However, the IRS extended target dates related to ten (29 percent) of the 35 open remedial actions. The extensions ranged from 6 months to 18 months. Although the IRS has reasonable explanations for the extended dates, these delays further hinder the IRS' ability to address its noncompliance with the FFMIA in a timely manner. In addition, the IRS is still in the process of updating the remediation plan with specific actions to develop timely and reliable cost accounting information.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Office of National Drug Control Policy Detailed Accounting Submission and Assertions National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled *Annual Accounting of Drug Control Funds*, dated April 18, 2003.	Requires TIGTA to authenticate the IRS' Office of National Drug Control Policy (ONDCP) detailed accounting submission and assertions.	***Reference No. 2008-10-058, January 2008*** TIGTA determined that the IRS' FY 2007 ONDCP detailed accounting submission and performance summary report was clearly explained and adequately documented. However, in TIGTA's opinion, the performance measure reported by the IRS could be improved to better represent the IRS' contribution to the National Drug Control Strategy. Specifically, by reporting only the number of ONDCP-related investigations completed, the IRS is providing very little information on the effectiveness of its efforts.

THE TREASURY DEPARTMENT
ALBERT GALLATIN
SECRETARY OF THE TREASURY

APPENDIX IV
SECTION 1203 STANDARDS

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

Misconduct violations include:

- Willfully failing to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;
- Providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;
- Violating, with respect to a taxpayer, taxpayer representative, or other employee of the IRS, any right under the Constitution of the United States, or any civil right established under Title VI or VII of the Civil Rights Act of 1964; Title IX of the Education Amendments of 1972; Age Discrimination in Employment Act of 1967; Age Discrimination Act of 1975; Section 501 or 504 of the Rehabilitation Act of 1973; or Title I of the Americans with Disabilities Act of 1990;
- Falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;
- Committing assault or battery on a taxpayer, taxpayer representative, or other employee of the IRS, but only if there is a criminal conviction or a final judgment by a court in a civil case, with respect to the assault or battery;
- Violating the Internal Revenue Code of 1986, 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; and
- Threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

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

THE TREASURY DEPARTMENT
ALBERT GALLATIN
SECRETARY OF THE TREASURY

APPENDIX V
DATA TABLES PROVIDED BY THE IRS

The memorandum copied below is the IRS transmittal to TIGTA. The tables that follow the memorandum contain information as provided by the IRS to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period from October 1, 2007, to March 31, 2008. Also, data concerning substantiated I.R.C. § 1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.

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

HUMAN CAPITAL OFFICE

April 3, 2008

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Barbara Pabotoy
Director, Workforce Relations Division

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

In response to your memorandum of February 14, 2008, to the Acting Commissioner, I am providing the following information to you to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period October 1, 2007 to March 31, 2008.

- Report of Employee Misconduct by Disposition Groups
- Report of Employee Misconduct – National Summary
- Summary of Substantiated Section 1203 Inquiries Recorded in ALERTS

The attached tables contain information concerning alleged misconduct reported to IRS managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of March 31, 2008. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).

The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 171 §1203 allegations and removed 18 employees. In five of the removals IRS managers considered information forwarded in a TIGTA investigation. Seventeen employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 55 cases.

If you have any questions or need additional information, please call me at 202-622-6383, or a member of your staff may contact Christine Adams at 202-622-9363.

Attachments (3)

cc: Commissioner
Deputy Commissioner for Services and Enforcement
Deputy Commissioner for Operations Support
National Taxpayer Advocate
Acting Chief, EEO & Diversity
Chief, Communications & Liaison
Associate Chief Counsel (GLS)

REPORT OF EMPLOYEE MISCONDUCT FOR THE PERIOD OCTOBER 01, 2007 THROUGH MARCH 31, 2008 SUMMARY BY DISPOSITION GROUPS (TABLE PROVIDED BY THE IRS)

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	54	62	10	2	**128**
Separation of Probationary Employees	3	80	4	12	**99**
Separation of Temporary Employees	1	4	8	2	**15**
Resignation/Retirement	76	122	59	16	**273**
Suspensions	124	223	92	8	**447**
Reprimands	141	427	462	25	**1,055**
Counseling		243	1,110	43	**1,396**
Alternative Discipline	24	83	25	3	**135**
Clearance	83	137	14		**234**
Closed Without Action	233	250	133	147	**763**
Closed Without Action (Caution Statement)	142	128	97	101	**468**
Forwarded to TIGTA		12		1	**13**
Suspended – Waiting Supplemental		1			**1**
Termination for Abandonment of Position		20			**20**
Forwarded to OPM for MIF				18	**18**
Case Suspended Pending Employee Return To Duty	3		2	2	**7**
Prosecution Pending for TIGTA ROI's	8				**8**
Total	**892**	**1,792**	**2,016**	**380**	**5,080**

Source: Automated Labor and Employee Relations Tracking System (ALERTS)
This report is being produced in accordance with 26 USC § 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999

Extract Date: Tuesday, April 01, 2008 Report ID = T1R3a

REPORT OF EMPLOYEE MISCONDUCT FOR THE PERIOD OCTOBER 01, 2007 THROUGH MARCH 31, 2008 NATIONAL SUMMARY (TABLE PROVIDED BY THE IRS)

Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Cases	
TIGTA Investigations ROI[1]	532	844	(892)	(5)	(0)	**479**
Administrative Case[2]	759	1,970	(1,792)	(22)	(6)	**909**
Employee Tax Compliance Case[3]	879	2,004	(2,016)	(72)	(0)	**795**
Background Investigations[4]	156	345	(380)	(2)	(0)	**119**
Total	**2,326**	**5,163**	**(5,080)**	**(101)**	**(6)**	**2,302**

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

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

Extract Date: Tuesday, April 01, 2008 Report ID = T1R1

[1] TIGTA Investigations - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred a Report of Investigation (ROI) to IRS for appropriate action.
[2] Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.
[3] Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.
[4] Background Investigation - Any matter involving an NBIC investigation into an employee's background that is referred to management for appropriate action.

SUMMARY OF SUBSTANTIATED I.R.C. § 1203 ALLEGATIONS RECORDED IN ALERTS FOR THE PERIOD OCTOBER 01, 2007 THROUGH MARCH 31, 2008 (TABLE PROVIDED BY THE IRS)

§ 1203 Violation	Removals[1]	Resigned/ Retired	Probation/ Separation	Removed On Other Grounds	Penalty Mitigated[1]	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	**0**
False Statement Under Oath	0	0	0	0	0	0	**0**
Constitutional & Civil Rights Issues	0	0	0	0	0	1	**1**
Falsifying or Destroying Records	1	3	0	0	0	0	**4**
Assault or Battery	0	0	0	0	0	0	**0**
Retaliate or Harass	0	0	0	0	0	0	**0**
Misuse of §6103	0	0	0	0	0	0	**0**
Failure to File Federal Tax Return	4	5	1	5	26	37	**78**
Understatement of Federal Tax Liability	13	9	0	2	29	35	**88**
Threat to Audit for Personal Gain	0	0	0	0	0	0	**0**
Totals	**18**	**17**	**1**	**7**	**55**	**73**	**171**

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

Extract Date: Wednesday, April 02, 2008

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