

# Treasury Inspector General for Tax Administration

## Mission Statement

To provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws.

## Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
	Enacted	President's Budget	CR-rate	Request	\$from CR-rate	% from CR-rate
Salaries and Expenses						
Audit	\$49,761	\$51,521	\$49,686	\$52,959	\$3,273	6.59%
Investigations	82,192	84,948	82,267	87,594	5,327	6.48%
<b>Total Appropriated Resources</b>	<b>\$131,953</b>	<b>\$136,469</b>	<b>\$131,953</b>	<b>\$140,553</b>	<b>\$8,600</b>	<b>6.52%</b>

## FY 2008 Priorities

- Adapting to the Internal Revenue Service's (IRS) continuously evolving operations and mitigating intensified risks associated with modernization, outsourcing, and enforcement efforts.
- Responding to threats and attacks against IRS personnel, property, and sensitive information.
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse or misconduct by IRS employees.
- Conducting comprehensive audits that include recommendations for cutting costs and enhancing IRS' service to taxpayers.
- Informing Congress and the Secretary of the Treasury of problems and progress made to resolve them.

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## **Section 1 – Purpose**

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### **1A – Description of Bureau Vision and Priorities**

The Treasury Inspector General for Tax Administration (TIGTA) was created to provide independent oversight of the Internal Revenue Service (IRS). TIGTA's investigations and audits protect and promote the fair administration of the American tax system. Its responsibilities include ensuring that the IRS is accountable for more than \$2 trillion in tax revenue received each year. TIGTA's investigations: protect the IRS against breaches of integrity by IRS employees, contractors, and other tax professionals; provide for employee and infrastructure security; and protect the IRS from external attempts to threaten or corrupt the administration of the tax laws. TIGTA conducts audits that advise Congress, the Secretary of the Treasury, and IRS management of high risk issues, problems, and deficiencies related to the administration of IRS programs and operations. TIGTA's audit recommendations aim to improve IRS systems and operations, while maintaining fair and equitable treatment of taxpayers.

TIGTA's investigative and audit priorities include:

- Adapting to the IRS' continuously evolving operations and mitigating intensified risks associated with modernization, outsourcing, and enforcement efforts;
- Responding to threats and attacks from individuals, anti-government groups, and terrorism against IRS personnel, property, and sensitive information;
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse, or misconduct by IRS employees;
- Identifying inefficiencies and high-risk weaknesses in tax administration through comprehensive audits that ensure the protection of taxpayer rights, generate cost savings, protect tax revenue, and enhance IRS' services to taxpayers; and
- Advising Congress and the Secretary of the Treasury of high-risk problems and progress made to resolve them.

The total resources required to support TIGTA activities for FY 2008 are \$141,753,000 including \$140,553,000 from direct appropriations and \$1,200,000 from offsetting collections and reimbursable agreements.

### **1B – Program History and Future Outlook**

TIGTA's investigations and audits are integral to the efficient and equitable application of the nation's tax laws and thereby ensure that this critical source of federal revenue is prudently and fairly administered and secure from internal and external threats. Oversight activities are explicitly designed to identify high-risk systemic inefficiencies in

IRS operations and investigate exploited weaknesses in tax administration. Previously a longstanding enforcement office within the IRS, TIGTA was established as an independent office in January 1999 in accordance with the *Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)*. It was mandated to provide independent audit and investigative services necessary to improve the quality and credibility of IRS oversight.

In FY 2006, TIGTA's accomplishments included:

*Advising Congress:* TIGTA issued 171 audit reports, and also provided 40 testimonies, briefings, and responses to Congress and its professional staff regarding investigative and audit activities. Through this direct communication, TIGTA aims to address the interest of congressional committees on critical issues and eliminate unsubstantiated concerns that may needlessly impede IRS operations. Accordingly, TIGTA recently established an Inspection and Evaluation Group to provide additional flexibilities to address evolving topics and address significant issues that require a quick turnaround. This group provides rapid responses to requests from Congress and other stakeholders for reviews and guidance regarding tax administration programs and activities.

*Hurricanes Katrina and Rita Review:* TIGTA participated in the Inspectors General's coordinated oversight of the federal government's multi-billion dollar hurricane relief effort. TIGTA initiated reviews intended to assess IRS preparation for processing tax returns of impacted taxpayers, ensure an adequate approval process for new tax-exempt disaster relief organizations, protect taxpayer data and evaluate business resumption plans. TIGTA's investigations targeted areas susceptible to abuse or misuse of relief mechanisms and exploitation of victims. TIGTA's involvement not only verified that tax relief was appropriately applied to victims in most cases, but also ensured that weaknesses in the IRS' disaster recovery and execution operations were identified and resolved for future years.

*Implementing New Statutory Requirement Regarding Taxpayer Assistance Services:* In May of 2005, the IRS announced plans to close 68 Taxpayer Assistance Centers (TACs) in order to generate an estimated \$45 million to \$55 million in cost savings. Congressional concerns resulted in new legislation prohibiting the IRS from using FY 2006 appropriated funds to reduce any taxpayer service function or program until TIGTA assessed the impact on taxpayer service and compliance. TIGTA adjusted priorities to meet this unfunded congressional mandate in a timely and effective manner. This review ensured that taxpayer services were not inappropriately reduced in vital areas.

*Overall Audit Outcomes:* As of September 30, 2006, a total of 171 audit reports were issued, identifying approximately \$1.8 billion in potential costs savings and protected revenue.

*Overall Investigative Outcomes:* As of September 30, 2006, 3,412 investigations were closed and achieved 79 percent positive results (e.g., referrals for criminal and civil

prosecution and administrative adjudications), including 1,485 cases of employee misconduct referred to the IRS for administrative action and 268 cases accepted for prosecution.

TIGTA has achieved its performance and quality expectations in part by implementing several efficiency and cost-cutting initiatives. Specifically, TIGTA has:

- Implemented and expanded telecommuting and hoteling<sup>1</sup> programs that have enhanced employee productivity and reduced TIGTA's rent costs;
- Closed offices and reduced managerial and support staff positions;
- Outsourced certain personnel, finance, and accounting services to the Bureau of Public Debt's (BPD) Administrative Resource Center; and,
- Maximized efficient use of resources by ensuring that TIGTA emphasizes core mission-related work.

FY 2008 Priorities:

*Ensuring the Privacy and Security of Taxpayer Information:* Millions of taxpayers entrust the IRS with sensitive financial and personal data, which is processed and stored by IRS computer systems. This trust is the cornerstone of the nation's voluntary tax compliance system. The risk of confidential data being compromised has intensified over the last few years. The Department of Commerce estimates that more than 50 million identities were compromised in 2005. TIGTA plays a vital role in ensuring the privacy and security of taxpayer information from internal and external threats.

The *Taxpayer Browsing Protection Act of 1997*<sup>2</sup> designates willful unauthorized access or inspection of any taxpayer records a criminal offense. An integral part of TIGTA's employee integrity program involves investigation of unauthorized access (UNAX) of confidential taxpayer records by IRS employees, other federal employees, contractors, and state government employees. From FY 2001 to FY 2006, TIGTA has initiated 2,878 UNAX investigations, resulting in 1,375 adverse personnel actions taken by the IRS, and 86 criminal prosecutions, for UNAX violations.

The IRS is also a prime target for attacks on its computer systems by anti-government groups, international and domestic terrorists, and disgruntled employees. In addition to identity theft concerns, computer attacks can cause revenue loss and impede productivity by disrupting computer operations. In compliance with the *Federal Information Security Management Act (FISMA)*<sup>3</sup>, TIGTA conducts an annual evaluation of the IRS information security program and practices. During the FY 2005 evaluation, TIGTA

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<sup>1</sup> Hoteling is a flexible work arrangement whereby an employee already participating in the telecommuting program on a full or expanded basis (generally over 30 hours per week) does not have a permanently assigned personal workspace but may reserve office space on an as-needed basis.

<sup>2</sup> *Pub. L. No. 105-35, 111 Stat. 1103.*

<sup>3</sup> *FISMA is part of the E Government Act of 2002, Pub. L. No. 107-347, Title III, Section 301, 2002.*

found that the IRS was paying insufficient attention to the security of all sensitive systems and contractor activities. TIGTA noted deficiencies in continuous monitoring, tracking corrective actions, training employees with key security responsibilities, and contractor oversight. An additional TIGTA review exposed inconsistent maintenance of security settings that could be exploited either to take control of the computer or render it unusable.

*Private Debt Collection:* The IRS' delinquent tax debt collection effort will utilize Private Collection Agencies (PCAs). Overseeing PCAs is a top priority for TIGTA in the coming fiscal years. TIGTA's previous experience with detecting lockbox thefts and insufficient contractor oversight provide an investigative foundation for minimizing the incidence of similar violations in this area. TIGTA has coordinated with the IRS throughout the initial phase of implementation by addressing concerns regarding security and protection of taxpayer rights and privacy, and developing integrity and fraud awareness training for contract employees. The IRS placed 11,564 delinquent tax accounts with a value of \$65 million with three approved PCAs in September 2006, and will place an additional 107,000 accounts with a value of approximately \$656 million in 2007. Full implementation, involving 10 to 12 contractors, is scheduled to begin in January 2008.

TIGTA reviews will assess program controls and cost effectiveness, and evaluate whether the IRS achieves its revenue projections. Additional investigative responsibilities to deter fraudulent behavior will include conducting remittance and integrity tests, providing integrity awareness briefings to contract employees, and investigating contract irregularities. TIGTA's involvement will validate that the IRS effectively exercises its new authority to use PCAs, while ensuring that taxpayers' due process and privacy rights are protected.

*Procurement:* Contract expenditures constitute approximately 20 percent of the IRS annual budget. TIGTA has identified erroneous and improper payments as one of the top management challenges the IRS faces. Currently, TIGTA coordinates with the Defense Contract Audit Agency to perform some contract audits and conducts several independent reviews of contractor invoicing to ensure that the IRS is properly and accurately paying for goods and services in accordance with contract terms and conditions. TIGTA also conducts reactive and proactive investigations to identify and deter criminal activity on the part of contractors. From FY 2002 through FY 2006, TIGTA initiated 86 contract fraud investigations, resulting in five prosecutions and the recovery of more than \$20 million. TIGTA will continue to review a percentage of the amounts paid by IRS to private contractors.

## Section 2 – Budget Adjustments and Appropriation Language

### 2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: TIGTA, Salaries & Expenses	FTE	Amount
<b>FY 2006 Appropriation (P.L. 109-115)</b>	<b>856</b>	<b>\$133,286</b>
Rescission (P.L. 109-148)	(6)	(1,333)
<b>FY 2006 Enacted</b>	<b>850</b>	<b>\$131,953</b>
<b>FY 2007 President's Budget</b>	<b>850</b>	<b>\$136,469</b>
CR-rate Adjustment	(33)	(4,516)
<b>FY 2007 CR-rate</b>	<b>817</b>	<b>\$131,953</b>
<b>Changes to Base:</b>		
<b>Technical Adjustment to FY 2007 Base due to CR:</b>		
Base Adjustment	18	3,726
<b>Maintaining Current Levels (MCLs):</b>		
Non-Pay Inflation Adjustment		672
Pay Annualization		579
Pay Inflation Adjustment		3,623
<b>Total FY 2008 Base</b>	<b>835</b>	<b>\$140,553</b>
<b>Total FY 2008 Request</b>	<b>835</b>	<b>\$140,553</b>

### 2A – Budget Increases and Decreases Description

**Adjustments** ..... **-\$4,516,000 / -33 FTE**

CR-rate Adjustment -\$4,516,000 / -33 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

**Technical Adjustment to FY 2007 Base due to CR** ..... **+\$3,726,000 / +18 FTE**

Base Adjustment +\$3,726,000 / +18 FTE Technical adjustment to FY 2007 Base due to CR.

**Maintaining Current Levels (MCLs)** ..... **+\$4,874,000 / +0 FTE**

Non-Pay Inflation Adjustment +\$672,000 / +0 FTE Funds are requested for non-labor inflation and cost increases, such as contracts, travel, supplies, equipment, and GSA rent.

Pay Annualization +\$579,000 / +0 FTE Annualization of January 2007 pay increase to provide full year funding for that pay increase during FY 2008.

Pay Inflation Adjustment +\$3,623,000 / +0 FTE Pay adjustment for January 2008 pay increase and related increased benefit costs.

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: TIGTA Salaries & Expenses	FY 2007			FY 2007 CR-rate	Proposed Reprogrammings	FY 2007	FY 2008
	FY 2006 Enacted	President's Budget	CR-rate Adjustment			Operating Level	Requested Level
<b>FTE</b>	<b>850</b>	<b>850</b>	<b>(33)</b>	<b>817</b>	<b>-</b>	<b>817</b>	<b>835</b>
<b>Object Classification:</b>							
11.1 Full-Time Permanent Positions.....	\$72,245	\$74,363	(\$3,411)	\$70,952		\$70,952	\$75,921
11.1 Other than Full-Time Permanent Positions.....	524	555		555		555	576
11.5 Other Personnel Compensation.....	8,590	8,809		8,809		8,809	9,398
11.8 Special Personal Services Payments.....	0	0				0	0
11.9 Personnel Compensation (Total).....	81,359	83,727	(\$3,411)	80,316		80,316	85,895
12.0 Personnel Benefits.....	23,645	24,708	(\$1,105)	23,603		23,603	25,226
13.0 Benefits to Former Personnel.....	0	0				0	0
21.0 Travel.....	4,249	4,446		4,446		4,446	4,552
22.0 Transportation of Things.....	13	24		24		24	24
23.1 Rental Payments to GSA.....	9,437	7,983		7,983		7,983	8,024
23.2 Rent Payments to Others.....	246	275		275		275	282
23.3 Communications, Utilities, & Misc.....	2,167	1,960		1,960		1,960	2,158
24.0 Printing and Reproduction.....	9	8		8		8	8
25.1 Advisory & Assistance Services.....	1,105	1,125		1,125		1,125	1,152
25.2 Other Services.....	862	899		899		899	921
25.3 Purchase of Goods/Serv. from Govt. Accts....	3,158	5,668		5,668		5,668	6,530
25.4 Operation & Maintenance of Facilities.....	219	398		398		398	407
25.5 Research & Development Contracts.....	0	0		0		0	0
25.6 Medical Care.....	0	0		0		0	0
25.7 Operation & Maintenance of Equipment.....	1,201	1,223		1,223		1,223	1,252
25.8 Subsistence & Support of Persons.....	0	0		0		0	0
26.0 Supplies and Materials.....	1,157	1,143		1,143		1,143	1,170
31.0 Equipment.....	3,025	2,685		2,685		2,685	2,750
42.0 Insurance Claims & Indemn.....	50	146		146		146	150
91.0 Confidential Expenditures.....	51	51		51		51	52
<b>Total Budget Authority.....</b>	<b>\$131,953</b>	<b>\$136,469</b>	<b>(\$4,516)</b>	<b>\$131,953</b>	<b>\$0</b>	<b>\$131,953</b>	<b>\$140,553</b>
<b>Budget Activities:</b>							
Audit.....	\$49,761	\$51,521	(\$1,835)	\$49,686		\$49,686	\$52,959
Investigations.....	82,192	84,948	(\$2,681)	82,267		82,267	87,594
<b>Total Budget Authority.....</b>	<b>\$131,953</b>	<b>\$136,469</b>	<b>(\$4,516)</b>	<b>\$131,953</b>	<b>\$0</b>	<b>\$131,953</b>	<b>\$140,553</b>



**2B – Appropriation Language**

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p style="text-align: center;">Federal Funds</p> <p><b>SALARIES AND EXPENSES:</b></p> <p><i>For necessary expenses of the Treasury Inspector General for Tax Administration in carrying out the Inspector General Act of 1978, as amended, including purchase (not to exceed 150 for replacement only for police-type use) and hire of passenger motor vehicles (31U.S.C. 1343(b)); services authorized by 5 U.S.C. 3109, at such rates as may be determined by the Inspector General for Tax Administration; \$140,533,000, of which not to exceed \$6,000,000 for official travel expenses; of which not to exceed \$500,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration; and of which not to exceed \$1,500 shall be available for official reception and representation expenses.</i></p>	

**2C – Legislative Proposals**

TIGTA has no legislative proposals for FY 2008.

## Section 3 – Budget and Performance Plan

### 3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations <sup>1</sup>		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Audit	355	\$49,761	346	\$48,608	355	\$51,521	341	\$49,686	349	\$52,959	2.35%	6.59%
Investigations	495	82,192	489	82,994	495	\$84,948	476	\$82,267	486	87,594	2.10%	6.48%
<b>Subtotal New Appropriated Resources</b>	<b>850</b>	<b>\$131,953</b>	<b>835</b>	<b>\$131,602</b>	<b>850</b>	<b>\$136,469</b>	<b>817</b>	<b>\$131,953</b>	<b>835</b>	<b>\$140,553</b>	<b>2.20%</b>	<b>6.52%</b>
Other Resources:												
Offsetting Collections - Reimbursable	3	\$1,200	3	\$1,625	3	\$1,200	3	\$1,200	3	\$1,200	0.00%	0.00%
<b>Subtotal Other Resources</b>	<b>3</b>	<b>\$1,200</b>	<b>3</b>	<b>\$1,625</b>	<b>3</b>	<b>\$1,200</b>	<b>3</b>	<b>\$1,200</b>	<b>3</b>	<b>\$1,200</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Total Resources Available for Obligation</b>	<b>853</b>	<b>\$133,153</b>	<b>838</b>	<b>\$133,227</b>	<b>853</b>	<b>\$137,669</b>	<b>820</b>	<b>\$133,153</b>	<b>838</b>	<b>\$141,753</b>	<b>2.20%</b>	<b>6.46%</b>

<sup>1/</sup> FY 2006 Obligations of FY 2006 Enacted amounts

**3A – Audit** (\$52,959,000 from direct appropriations and \$725,000 from reimbursable programs): The Office of Audit’s (OA) mission is to provide comprehensive coverage and oversight of all aspects of the IRS’ daily operations. Audits not only focus on the economy and efficiency of IRS functions but also ensure that taxpayers’ rights are protected and the taxpaying public is adequately served. Overall, as of September 30, 2006, audit reports produced potential financial accomplishments of \$1.8 billion, and potentially impacted approximately 1.8 million taxpayer accounts in areas such as taxpayer burden, rights, and entitlements.

OA develops an annual audit plan that communicates oversight priorities to Congress, the Department of the Treasury, and the IRS. Emphasis is placed on mandatory coverage imposed by *RRA 98* and other statutory authorities, as well as issues impacting computer security, taxpayer rights and privacy, and financial-related audits. OA’s work focuses on IRS’ major management challenges, IRS’ progress in achieving its strategic goals, eliminating IRS’ systemic weaknesses, and IRS’ response to the President’s Management Agenda initiatives. By focusing on these critical areas, OA ensures that TIGTA audits identify and recommend improvements in IRS programs, including:

**Tax Compliance:** In February 2006, the IRS estimated the gross tax gap, defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay, to be \$345 billion for Tax Year 2001. TIGTA evaluated the reliability of the IRS-developed tax gap figures and concluded that the IRS lacked sufficient information to completely and accurately assess the tax gap and voluntary compliance rate. A reliable estimate of the overall tax gap and its components is critical to tax administration and tax policy decision makers. Continued TIGTA oversight of tax gap issues, including data reliability, enforcement laws, and taxpayer assistance, is necessary to ensure that the IRS enhances voluntary compliance by balancing taxpayer services and enforcement without jeopardizing taxpayer rights.

An OA review of the IRS penalty-setting process for information returns related to foreign operations and transactions revealed deficiencies in the assessment of late-filing penalties. The audit identified missed opportunities for promoting better compliance with

filing requirements by not assessing late-filing penalties more frequently. OA estimated that the IRS could generate approximately \$60.3 million per year, or \$301 million over five years, in additional revenue by using automation to close the gap between penalties assessed and the number of penalties that should be assessed when forms are filed late. OA recommended that the IRS convene a study group to develop a business case to decide whether or not to pursue automating the penalty-setting process. IRS management agreed with these recommendations and indicated that initial steps to assess automation will be implemented.

*Quality of Taxpayer Services:* The IRS has experienced a steady growth in electronic filing (e-filing) of income tax returns over the past several years. However, OA has expressed concern regarding the significant slowing of the growth of returns e-filed in 2006. A slower growth rate extends the time period needed to achieve the goal of 80 percent e-filed returns and delays the associated cost savings. A significant contributing factor was a 22 percent decline from the previous year in the number of taxpayers utilizing IRS free online filing options, under the Free File Program. OA raised concerns regarding the quality and accessibility of free e-filing services offered by the IRS.

The Subcommittee on Oversight of the House Committee on Ways and Means requested that OA review recent amendments made to the IRS' Free File Alliance Agreement in order to evaluate the differences from the previous agreement and to assess the impact on electronic filing and taxpayer services. OA's review showed that the amended agreement substantially reduced the number of taxpayers eligible to use the program and that the Free File services are often inaccessible, time-consuming, and difficult to use for eligible taxpayers. OA's recommendations will help to ensure that the free filing options provided by the IRS contribute to a higher growth rate of e-filing.

*Minimizing Erroneous and Improper Payments:* An OA review identified specific reforms to improve IRS processes designed to detect and deter multiple uses of taxpayer identification numbers. When a taxpayer identification number is utilized multiple times during a tax year, it creates the opportunity for taxpayers to receive tax benefits to which they are not entitled. The audit found that the IRS could improve its processes by capitalizing on existing paper return processes; expanding current programs to educate taxpayers and tax preparers on correct use of identification numbers; and enhancing the reliability of the Duplicate Taxpayer Identification Number Use database. OA estimated that the IRS could protect over \$153 million in tax revenue over a five-year period by leading a collaborative effort to identify a workable solution to these multiple use cases. IRS management agreed with the recommendations and is taking corrective action.

OA faces the challenge of addressing increasing requests from Congress and other IRS stakeholders in a timely and efficient manner. In FY 2006, OA reallocated resources in order to perform congressionally requested audits and comply with new statutory provisions. The importance of TIGTA's mission and the effectiveness of its oversight are demonstrated by the increased number of requests for audits TIGTA receives. TIGTA

expects the trend of increased congressional interest and requests for action to continue into future years.

*Other Resources:* TIGTA receives \$725,000 in offsetting collections and reimbursements to support activity related to Defense Contract Audit Agency (DCAA) audits conducted on behalf of the IRS and other activity conducted on behalf of the Department of the Treasury.

### 3.2.1 – Audit Budget and Performance Plan

Dollars in Thousands

Audit Budget Activity Resource Level	FY 2004 Enacted	FY 2005 Enacted	Includes Strategic Objective M5A		
			FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	\$48,387	\$48,392	\$49,761	\$51,521	\$52,959
Other Resources	50	1,092	725	725	725
<b>Total Operating Level</b>	<b>\$48,437</b>	<b>\$49,484</b>	<b>\$50,486</b>	<b>\$52,246</b>	<b>\$53,684</b>
Human Resources					
Appropriated FTE	369	357	355	355	349
Other FTE	0	0	0	0	0
<b>Total FTE (direct and reimbursable)</b>	<b>369</b>	<b>357</b>	<b>355</b>	<b>355</b>	<b>349</b>

Audit Budget Activity Measure		Includes Strategic Objective M5A				
		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percentage of Audit Products Delivered When Promised to Stakeholders	Target Actual Met				Baseline	TBD
Percentage of Recommendations Made That Have Been Implemented	Target Actual Met				Baseline	TBD

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

*Description of Performance:* TIGTA is proposing two new measures. The first one determines whether TIGTA audit products are timely. The likelihood that TIGTA products will be used is enhanced if they are delivered when needed to support Congressional and Internal Revenue Service (IRS) decision making.

The Office of Audit makes recommendations designed to improve administration of the Federal tax system. For there to be a resulting financial or non-financial benefit, the Internal Revenue Service (IRS) must implement these recommendations. The second measure assesses TIGTA's effect on improving the IRS' accountability, operations, and services. TIGTA tracks the percentage of recommendations that were made four years ago which have been implemented, rather than tracking the recommendations when they are made initially, because the IRS needs time to act on recommendations.

**3B – Investigations** (\$87,594,000 from direct appropriations and \$475,000 from reimbursable programs): TIGTA’s mission is more extensive than other IGs in that it has the statutory responsibility to protect the integrity of tax administration and the ability of the IRS to collect revenue for the federal government. To accomplish this, TIGTA’s Office of Investigations (OI) investigates allegations of criminal violations and administrative misconduct by IRS employees, protects the IRS against external attempts to corrupt tax administration, and ensures IRS employee safety and IRS data and infrastructure security.

*Employee Integrity:* The IRS’ ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes can be undermined by employee misconduct. TIGTA’s investigations of employee misconduct allegations include those involving extortion, theft, taxpayer abuses, false statements, financial fraud, and unauthorized access (UNAX) of confidential taxpayer records by IRS employees.

*External Attempts to Corrupt Tax Administration:* External attempts to corrupt tax administration impede the IRS’ ability to collect revenue. TIGTA’s investigations in this area include bribes offered by taxpayers to compromise IRS employees, the use of fraudulent IRS documentation to commit crimes, taxpayer abuse by tax practitioners, impersonation of IRS employees, and the corruption of IRS programs through procurement fraud.

Particularly important to TIGTA are phishing scams that falsely depict e-mails from the IRS.<sup>4</sup> Such schemes attempt to retrieve a user’s Social Security Number and banking information by replicating an official IRS seal and/or requesting information required for depositing tax refunds. Since November 2005, TIGTA and the IRS have received 17,921 (as of December 31, 2006) complaints or inquiries regarding these internet schemes, identifying approximately 203 separate ones that were traced to 28 different countries. Oversight in this area is necessary to ensure that misuse of the IRS name, impersonation of an IRS employee, and identity theft incidents are resolved properly.

*Employee and Infrastructure Security:* In 1998, The President of the United States designated IRS operations as a critical infrastructure.<sup>5</sup> TIGTA meets the challenge of maintaining IRS employee and infrastructure security by investigating incidents of sabotage and threats or assaults made against IRS employees, facilities, and infrastructure. Potential threats to tax administration are identified through TIGTA’s Criminal Intelligence Program, which utilizes law enforcement and intelligence resources to proactively detect suspected individuals and groups.

Congressional concern regarding the magnitude of uncollected revenue has prompted the IRS to intensify enforcement activities. If effective, heightened enforcement is likely to cause a rise in external threats to IRS employees and infrastructure. Both TIGTA’s proactive and reactive investigative initiatives are critical in mitigating such future risks. OI currently participates on the FBI Joint Terrorism Task Forces (JTTF) and conducts

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<sup>4</sup> Phishing involves sending e-mails to users falsely claiming to be established, legitimate enterprises in order to solicit private information for the purpose of identity theft and other crimes.

<sup>5</sup> *Presidential Decision Directive NSC-63.*

criminal intelligence gathering to uncover and track external threats to tax administration from individuals, anti-government groups, and terrorists. In FY 2006, OI initiated 275 investigations of assaults and/or threats made against IRS employees and 26 investigations of assaults and/or threats made against IRS facilities.

Investigative work in these three core areas is imperative for protecting the integrity of tax administration. The results of this work help ensure that the public has confidence in its dealings with the IRS, and thereby promote voluntary compliance with federal tax laws.

*Other Resources:* TIGTA receives \$475,000 in offsetting collections and reimbursements to support activity conducted on behalf of the Department of the Treasury.

### 3.2.2 – Investigations Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity Resource Level	Includes Strategic Objective M5A				
	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	\$78,932	\$79,701	\$82,192	\$84,948	\$87,594
Other Resources	3,023	1,784	475	475	475
<b>Total Operating Level</b>	<b>\$81,955</b>	<b>\$81,485</b>	<b>\$82,667</b>	<b>\$85,423</b>	<b>\$88,069</b>
Human Resources					
Appropriated FTE	516	495	495	495	486
Other FTE	15	9	3	3	3
<b>Total FTE (direct and reimbursable)</b>	<b>531</b>	<b>504</b>	<b>498</b>	<b>498</b>	<b>489</b>

Investigations Budget Activity Measure	Includes Strategic Objective M5A					
		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percentage of positive results from investigative activities (%) (Oe)	Target	Baseline	67%	70%	73%	73%
	Actual	64%	82%	79%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

*Description of Performance:* Examples of the types of cases in the positive results category include discovery of: bribes offered by taxpayers to compromise IRS employees; manipulation of IRS systems and programs through the use of bogus liens and IRS financial reporting instruments; impersonation of IRS officials; and, unauthorized access to confidential taxpayer information by IRS employees. As of September 30, 2006, actual performance has exceeded expectations (actual performance was 79 percent, while the target was 70 percent). These results are indicative of TIGTA's continuous focus on quality results.

For detailed information about each performance measure, including definition, verification and validation, please go to:

[http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part\\_IV\\_Appendices.pdf](http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf)

## Section 4 – Supporting Materials

### 4.1 – Human Resources Table

#### Changes in Full Time Equivalents

Direct FTE	FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year	855	835	817
<b>Increases:</b>			
Reason #1:	Technical adjustment to FY 2007 base due to CR		18
Subtotal, Increases	0	0	18
<b>Decreases:</b>			
Reason #1:	Partial hiring freeze	-20	
Reason #2:	CR-rate Adjustment		-18
Subtotal, Decreases	-20	-18	0
Year-end Actual/Estimated FTEs	835	817	835
Net Change from prior year SOY to budget year EOY			0

### 4A – Human Capital Strategy Description

TIGTA’s human capital strategy is aligned with the goals, vision, and priorities of the agency as a whole. One of the major strategic goals of the bureau is to “be an organization that values its people.” The objective associated with this goal is to “ensure a high-quality, diverse, and motivated workforce with the knowledge, skills, and abilities needed to produce quality products in an efficient and effective manner.” Also, TIGTA has revamped its performance management program for all employees (including managers) to differentiate levels of performance, to incorporate TIGTA’s strategic goals and objectives, and to hold employees accountable for performance.

TIGTA’s Human Capital group strategically lays out a multi-year approach for addressing its critical human capital issues. This approach supports TIGTA’s mission by empowering TIGTA’s management to fulfill the agency’s legislative mandates and business goals, and by providing technical expertise, resource management, and strategic solutions regarding human capital policy, Bureau of Public Debt (BPD) contract

oversight, performance management, personnel security, personnel development, and work/life issues.

TIGTA must deal with some critical staffing challenges (both now and in the future), in terms of having the right number of people with the right skills to accomplish its mission. Because of the increasingly modernized and computerized IRS operating systems and environment, the most critical gaps TIGTA faces are the 0511 Auditor and 1811 Criminal Investigator occupations. These gaps are the result of a combination of: (1) the current employee population lacking specific, needed skills to audit and/or investigate highly complicated computerized systems and/or operating environments; and (2) TIGTA's limited past successes in recruiting specifically for the 0511 Auditor (with specialized computer skills) occupation in the Washington, DC area, where most of this type of work is located.

Per HR Connect data, as of December 18, 2006, 35 percent of TIGTA's current staff is retirement eligible through FY 2010, which threatens TIGTA's ability to effectively fulfill its core mission.

To address the skills gap specifically in the 0511 Auditor occupation, TIGTA classified and recruited 2210 Information Technology Specialists with experience in auditing computerized operating environments. This proved somewhat successful, as TIGTA was able to hire a small group of employees under this occupational series. In addition, TIGTA expanded the post of duty locations for employees needed in this occupational series to include cities outside the Washington, DC, area.

The TIGTA workforce is not being supplemented by on-site contractors. However, the majority of TIGTA's human resources, accounting, travel, and acquisitions workload has been outsourced to BPD's Administrative Resource Center.



## 4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in \$ Millions)			FY 2005	FY 2006	% Change from FY05 Actuals to FY06	FY 2007	% Change from FY06 to FY07	FY 2008	
Major IT Investments	Budget Activity/Funding Source	Identify the Program that the System is Aligned to	Operating Plan	Operating Plan		President's Budget		Request	% Change from FY07 to FY08
<b>Subtotal, Major IT Investments</b>			\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	
Performance and Results Information System (PARIS)	TIGTA: Investigations Activity			\$1.0		\$1.0		\$1.0	
PARIS Property Module (PPM)	TIGTA: Investigations Activity			0.5		0.5		0.5	
<b>Non-Major IT Investments</b>			\$0.0	\$0.0	\$1.5	\$1.5		\$1.5	0.0%
TIGTA Office Automation	TIGTA: Audit and Investigations Activities		\$2.5	\$2.5	\$2.5	\$2.5		\$8.1	
TIGTA Telecommunications	TIGTA: Audit and Investigations Activities		1.3	1.3	1.3	1.3		3.1	
TIGTA Infrastructure	TIGTA: Audit and Investigations Activities		0.4	0.4	0.4	0.4		1.0	
TIGTA Security	TIGTA: Audit and Investigations Activities		0.3	0.3	0.3	0.3		0.8	
<b>Subtotal, Infrastructure Investments</b>			\$4.4	\$4.4	\$4.4	0.0%	\$4.4	\$13.0	192.5%
<b>Enterprise Architecture</b>			\$0.3	\$0.3	\$0.3	0.0%	\$0.3	\$0.3	0.0%
<b>Total IT Investments</b>			\$4.7	\$4.7	\$6.2	32.1%	\$6.2	\$14.7	138.0%

1/ FY 2006 Obligations of FY 2006 Enacted amounts

2/ The \$8.6 million increase in Infrastructure from FY 2007 to FY 2008 is due to the inclusion of TIGTA labor costs which were previously not reflected

#### **4B – Information Technology Strategy**

The Office of Information Technology (OIT) provides cost effective information technology products and services on behalf of TIGTA. All OIT activities are focused on providing effective and secure access to data sources that are critical to the successful completion of the TIGTA mission. OIT personnel routinely work with investigators and auditors, providing integrated support and/or data analysis services to foster the independence of TIGTA oversight and the integrity of its investigative and audit findings.

*Office Automation:* OIT provides traditional office automation services for all TIGTA employees. This includes provisioning of personal computers, productivity software, electronic mail, and other local area network services, such as network storage for effective data backup and recovery. OIT office automation is based on a standardized tool suite for internal TIGTA business operations. This tool suite is augmented to provide specialized software tools that permit investigators and auditors to access and analyze data residing on a wide variety of IRS and other governmental information systems. OIT monitors these tools to ensure availability and to determine when technology maintenance and refreshment activities are needed for effective protection of TIGTA-accessed data.

*Telecommunications:* OIT supports a wide area network (WAN) with access points throughout the United States and Puerto Rico, in direct support of a geographically distributed investigative and audit workforce. The WAN provides adequate bandwidth for internal and external data transmissions while providing secure access to other governmental computer networks and entities. For example, the WAN provides a secure interconnection between TIGTA and IRS that is used for electronic data exchange as well as for cost effective access to IRS information systems. The WAN also enables secure, remote access from alternative work locations. Alternative locations include the approximate 625 localities in which IRS conducts business without a local TIGTA presence. It also includes worksites that have been approved under the TIGTA telework program. TIGTA also operates a Land Mobile Radio (LMR) system that permits investigators to safely conduct field operations with reliable wireless communication devices.

*Infrastructure:* OIT operates information systems at various offices. In accordance with the OIT Strategic Plan and continuing cost containment measures, OIT is consolidating information technology services, where feasible, into data center facilities. The consolidation effort is designed to increase information system and resource utilization, eliminate unneeded redundancies, and improve ability to support core investigative and audit activities. As part of a TIGTA data center, extensive data analysis services are provided by OIT in direct support of investigative and audit activities. For example, these services permit TIGTA to meet its responsibilities under the *Taxpayer Browsing Protection Act of 1997*. In addition to consolidation of TIGTA's IT Infrastructure operations TIGTA has provided information on its Data Centers, Telecom (Voice Networks), Data Networks, Desktop/Seat Management and Help Desk through the

Department to the Infrastructure Optimization Initiative LoB and will evaluate Centers of Excellence as alternatives to providing its own infrastructure

*Enterprise Architecture and Security:* TIGTA operates several programs to comply with various legislative mandates and to improve the reliability, availability, and effectiveness of its information technology. For example, the enterprise architecture initiative responds to the *Clinger-Cohen Act* to align business practices with technology needs. It will provide for better decision making ability on information technology investment and related resource allocation. The security program focuses on securing data accessed by TIGTA through compliance with specific provisions of the *E-Government Act of 2002* and the *Federal Information Security Management Act (FISMA)*. This program spans systems certification and accreditation, incident response, and continuity of operations. Currently, all TIGTA FISMA systems are certified and accredited. OIT also coordinates with the IRS on areas of mutual concern, especially as it pertains to continued TIGTA access to IRS information systems as the IRS strengthens its own security posture in response to TIGTA, and other, audit findings.

*Non-Major Investments:* OIT maintains two internal management information systems that have recently been reclassified as non-major investments under Capital Planning and Investment Control (CPIC) guidelines. The Performance and Results Information System (PARIS) supports investigative compliance with the *Government Performance and Results Act (GPRA)*. The system facilitates GPRA compliance by collecting data needed to measure performance of investigative activities, specifically as it pertains to complaint management and investigating cases. The PARIS Property Module (PPM) is a custodial accounting system used to support the bureau's Personal Property Management Program. PPM is used to track capitalized and expensed assets used in support of investigative and audit activities and to track assets seized during law enforcement actions.

TIGTA's Information Technology Strategy can be found in its Information Resource Management Plan. TIGTA will be working with the Department shortly to articulate IT investment performance measures that are thoroughly developed, quantifiable, and appropriate.

TIGTA is in the process of implementing an IT Program Management Office (PMO). The PMO's mission is two-fold. The first is to provide overall responsibility for planning, directing, and coordinating activities pertaining to the review of technology and business unit projects on an enterprise level. The second is to increase project management competence and foster sustained success of projects carried out by OIT.

In conducting this mission the PMO will develop and maintain an IT investment portfolio that captures specific project and investment management data elements necessary to evaluate IT projects or acquisitions across the stages of their life cycle.

Status Report – the PMO will facilitate the status reporting and milestone information for the TIGTA Investment Review Board (IRB) to monitor all capital investments under development to ensure that cost, schedule, and performance targets are being met. In the

event that the PMO reports that a project is facing cost overruns, major schedule delays, or performance shortfalls, the IRB will determine the need to cancel the project and redirect freed resources to other priorities. The IRB must coordinate the canceling of projects and redistribution of funds for those projects that the Treasury Investment Review Board (TIRB) has approved.

#### **4.3 – PART Evaluation Table**

Not applicable for TIGTA.

For a complete list of PART results visit the following website:

<http://www.whitehouse.gov/omb/expectmore/all.html>