

## Treasury Inspector General for Tax Administration

### Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2017*	FY 2018	FY 2019	FY 2018 TO FY 2019	
	Enacted	Annualized CR	Request	\$ Change	% Change
Audit	\$66,020	\$65,572	\$62,704	(\$2,868)	-4.37%
Investigations	\$103,614	\$102,910	\$98,409	(\$4,501)	-4.37%
<b>Subtotal, TIGTA</b>	<b>\$169,634</b>	<b>\$168,482</b>	<b>\$161,113</b>	<b>(\$7,369)</b>	<b>-4.37%</b>
Reimbursable Resources	\$357	\$600	\$600	\$0	0.00%
Unobligated Balances Brought Forward	\$3,916	\$4,300	\$5,000	\$700	16.28%
<b>Total Program Operating Level</b>	<b>\$173,907</b>	<b>\$173,382</b>	<b>\$166,713</b>	<b>(\$6,669)</b>	<b>-3.85%</b>
Direct FTE	800	800	800	0	0.00%
Reimbursable FTE	2	2	2	0	0.00%
<b>Total FTE</b>	<b>802</b>	<b>802</b>	<b>802</b>	<b>0</b>	<b>0.00%</b>

\* This column reflects levels appropriated in H.R. 255, the Consolidated Appropriations Act of 2017. For further details on the execution of these resources see the 2019 Budget *Appendix* chapter for the Department of the Treasury.

### Summary

The Treasury Inspector General for Tax Administration's (TIGTA) Fiscal Year (FY) 2019 budget request of \$161,113,000 represents a decrease of 4.4 percent below its FY 2018 Annualized Continuing Resolution amount. These resources will fund critical audit, investigative, and inspection and evaluation services to protect the integrity of the Nation's system of tax administration.

TIGTA's vision is to "maintain a highly skilled, proactive, and diverse Inspector General organization dedicated to working in a collaborative environment with key stakeholders to foster and promote fair tax administration." While there are a number of critical areas where TIGTA will provide oversight, its FY 2019 priorities include:

- Identifying opportunities to improve the administration of the Nation's tax laws, improve tax compliance, and achieve program efficiencies and cost savings;
- Overseeing the Internal Revenue Service's (IRS) efforts to implement tax law changes;

- Assessing the IRS's efforts to address tax-related identity theft;
- Mitigating security risks affecting taxpayer data, tax systems, and IRS employees;
- Protecting the integrity of the IRS by effectively investigating the international IRS impersonation scam that has impacted more than 2.1 million Americans;
- Conducting criminal investigations of individuals and groups who impersonate the IRS in order to victimize senior citizens and other vulnerable Americans;
- Developing advanced analytics and innovative approaches to help prevent and detect the flow of dollars fraudulently obtained by criminals and dishonest IRS employees;
- Providing the IRS with the investigative coverage and the information necessary to mitigate domestic and foreign threats against its employees, facilities, and data systems;
- Improving the integrity of IRS operations by detecting and deterring waste, fraud, abuse, and misconduct, including the unauthorized disclosure of confidential taxpayer information by IRS employees;
- Conducting comprehensive audits and inspections and evaluations that provide

recommendations for achieving monetary benefits, addressing erroneous and improper payments, and enhancing the service the IRS provides to taxpayers;

- Rapidly and effectively responding to attempts to impersonate the IRS for fraudulent purposes; and
- Overseeing the IRS’s efforts to increase international tax compliance.

TIGTA was created by Congress as a part of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). TIGTA’s audits, investigations, and inspections and evaluations protect and promote the fair administration of the U.S. tax system. TIGTA conducts audits that advise the public, 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 improve the administration of the Federal tax system. TIGTA’s administrative and criminal investigations ensure the integrity of IRS employees, protect the IRS and its employees, and help the IRS protect and secure taxpayer data. TIGTA’s inspections and evaluations provide responsive, timely, and cost-effective inspections and evaluations of challenging areas in IRS programs. TIGTA’s oversight is essential to the efficiency and equity of the IRS’s tax administration system. TIGTA ensures that taxpayers can have confidence that the IRS collects more than \$3.4 trillion in tax revenue in an effective and efficient manner.

TIGTA’s primary functions of investigations, audit, inspections, and evaluations align with the following Department of the Treasury FY 2018- 2022 Strategic Plan goals:

- Goal 1: Boost U.S. Economic Growth;
- Goal 4: Transform Government-wide Financial Stewardship; and
- Goal 5: Achieve Operational Excellence.

### **TIGTA FY 2019 Budget Highlights**

Dollars in Thousands

Treasury Inspector General for Tax Administration	FTE	Amount
<b>FY 2018 Annualized CR</b>	<b>800</b>	<b>\$168,482</b>
<b>Changes to Base:</b>		
Maintaining Current Levels (MCLs):	0	\$1,233
Pay Annualization	0	\$620
Non-Pay	0	\$613
Subtotal Changes to Base	0	\$1,233
<b>Total FY 2019 Base</b>	<b>800</b>	<b>\$169,715</b>
<b>Program Changes:</b>		
Program Decreases	0	(\$8,602)
Operating Costs Reductions	0	(\$8,602)
<b>Total FY 2019 Request</b>	<b>800</b>	<b>\$161,113</b>

### **FY 2019 Budget Adjustments**

#### **Adjustments to Request**

#### **Maintaining Current Level (MCLs)**

#### **Pay Annualization +\$620,000 / +0 FTE**

Funds are required for annualization of the January 2018 pay-raise.

#### **Non-Pay +\$613,000 / +0 FTE**

Funds are requested for non-labor expenses such as travel, contracts, rent, supplies, and equipment.

#### **Program Decreases**

#### **Operating Cost Reductions -\$8,602,000 / +0 FTE**

Audit and Investigations activity levels will be reduced for operational costs. Reaching this savings target without impacting the quality of TIGTA’s programs will require a combination of actions to include specialized training and travel reductions for investigators and auditors, contract and interagency agreement reductions, and rent reductions. TIGTA will continue to look for contract efficiencies by evaluating contracts for strategic sourcing and by negotiating more advantageous contract terms. Additionally, TIGTA will pursue opportunities to reduce its footprint and lower its rent costs.

## ***Explanation of Budget Activities***

### ***Audit (\$62,704,000 from direct appropriations)***

TIGTA's audit work is concentrated on high-risk areas and the IRS's progress in achieving its strategic goals. TIGTA strategically evaluates IRS programs, activities, and functions so that resources are expended in the areas of highest vulnerability of the Nation's system of tax administration. TIGTA's audit program includes both statutory audit requirements and specific audits identified through TIGTA's risk-assessment process. By focusing on the most critical areas, TIGTA identifies and recommends improvements that add value while addressing high-risk tax administration issues. TIGTA's audits and recommendations help promote the economy, efficiency, and effectiveness of IRS programs; ensure the fair and equitable treatment of taxpayers; and detect and deter waste, fraud, and abuse.

During FY 2017, OA issued 104 audit reports, and other products, that included potential financial benefits of approximately \$9.1 billion and affected approximately 34 million taxpayer accounts. For FY 2019, OA anticipates its audit work will focus on key areas challenging the IRS, including security over taxpayer data, prevention and detection of fraud such as identity theft, and providing high-quality taxpayer service. In addition, TIGTA will address IRS efforts to implement tax law changes that may result from ongoing tax reform efforts. TIGTA's independent oversight plays a key role in ensuring that updated or new tax law provisions are implemented and administered in accordance with the law and the intent of Congress.

### ***Investigations (\$98,409,000 from direct appropriations, \$600,000 from reimbursable resources)***

TIGTA has a statutory responsibility to protect the integrity of tax administration and to protect the ability of the IRS to collect revenue

for the Federal Government. To accomplish this, TIGTA's investigative resources focus on three primary areas of investigation: Employee Integrity; Employee and Infrastructure Security; and External Attempts to Corrupt Tax Administration.

*Employee Integrity:* IRS employee misconduct, real or perceived, can erode public trust and impede the IRS's ability to enforce tax laws effectively. This misconduct manifests itself in a variety of ways, including misuse of IRS resources or authority; theft; fraud; extortion; taxpayer abuses; and unauthorized access to, and disclosure of, tax return information. During FY 2017, 46 percent of TIGTA's body of investigative work involved alleged employee misconduct. TIGTA's special agents possess the knowledge, skills, and expertise to investigate such matters. TIGTA's investigation of employee misconduct conveys a message to IRS employees that these types of activities will not go unchecked. TIGTA promotes employee integrity by conducting proactive investigative initiatives to detect criminal activity and other serious misconduct in the administration of IRS programs.

*Employee and Infrastructure Security:* Physical violence, harassment, and intimidation of IRS employees pose some of the most significant challenges to the implementation of a fair and effective system of tax administration. TIGTA's investigative efforts place high priority on its oversight of IRS employee safety and physical security, protecting approximately 81,000 employees and 542 facilities throughout the country. TIGTA maintains IRS employee and infrastructure security by conducting investigations into incidents that threaten IRS employees, facilities, and infrastructure. This work is critically important as it ensures that IRS employees and the taxpaying public can conduct business in a safe and secure

environment. The Inspector General Reform Act of 2008 authorizes TIGTA to provide physical security to protect IRS employees against external threats. TIGTA works aggressively and takes swift action to protect IRS employees, including providing armed escorts to IRS employees in dangerous situations.

*External Attempts to Corrupt Tax Administration:* TIGTA is statutorily mandated to investigate external attempts to corrupt tax administration, including criminal misconduct by nonemployees, such as impersonation of the IRS, attempted bribery of IRS employees, international cybercrime and identity theft, and procurement fraud.

Many IRS employees are in direct contact with taxpayers and encounter situations in which a taxpayer may challenge the employee's integrity with a bribe. Bribery or attempted bribery of a public official is a criminal offense and a threat to the integrity of the IRS and the Nation's system of tax administration. Additionally, TIGTA is investigating nationwide IRS impersonation schemes, in which criminals are pretending to be IRS employees and are attempting to collect phantom tax liabilities from innocent taxpayers. As of September 30, 2017, TIGTA received more than 2.1 million reports related to this type of contact; and more than 12,027 taxpayers have been defrauded out of more than \$60.7 million as a result of impersonation scams.

As cybersecurity threats against the Federal Government continue to grow, protecting the confidentiality of taxpayer information will continue to be a top concern for the IRS and for TIGTA.

The increasing number of data breaches in the private and public sectors means more personally identifying information than ever before is available to unscrupulous individuals. Due to the \$400 billion dollars the IRS issues in refunds and the 246 million tax returns it processes each year that contain extremely valuable information for identity thieves, the IRS has become a favorite target of cybercriminals located all over the world.

For example, in May 2015, criminals launched a coordinated attack on the IRS e-Authentication portal that resulted in the exploitation of the IRS Get Transcript Application, as well as the IRS IP PIN application. It is estimated that more than 110,000 taxpayers were impacted by this attack.

A subsequent review of all of the activity on the system revealed that more than 700,000 taxpayers were impacted by similar abuses of the system by multiple bad actors over an extended period of time. In January 2016, a coordinated criminal effort was launched that exploited the IRS Electronic Filing PIN (e-File PIN) tool. The e-File PIN tool was created to provide taxpayers with a special PIN number that would allow the taxpayer to electronically file a Federal tax return. The IRS estimates the exploitation resulted in the issuance of over 100,000 e-File PINs that were used to file over \$100 million of fraudulent tax returns. As a result of this exploitation, on June 23, 2016, the IRS announced that it had disabled the e-File PIN application. Numerous investigations are underway on the individuals who obtained taxpayer information from both of these attacks.

### **Legislative Proposals**

TIGTA has no legislative proposals.

## TIGTA Performance Highlights

Budget Activity	Performance Measures	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
		Actual	Actual	Actual	Target	Target
Audit	Percentage of Audit Products Delivered When Promised to Stakeholders	80.0	75.0	79.0	68.0	68.0
Audit	Percentage of Recommendations Made That Have Been Implemented	92.0	97.0	92.0	85.0	85.0
Investigations	Percentage of Results From Investigative Activities	93.0	90.0	90.0	79.0	79.0

### Description of Performance

- For FY 2017, OA issued 104 audit reports, and other products, identifying approximately \$9.1 billion in potential financial benefits.
- For FY 2017, the actual Percentage of Audit Products Delivered When Promised to Stakeholders was 79 percent. TIGTA exceeded the full-year target of 68 percent by 11 percentage points.
- For FY 2017 the actual Percentage of Recommendations Made That Have Been Implemented was 92 percent. TIGTA exceeded the full-year target of 85 percent by seven percentage points. TIGTA exceeded its target as a result of continuous discussions with the IRS throughout the audit process, both on the findings and on the potential recommended solutions, to ensure that feasible alternatives were identified.
- For FY 2019, OA's performance targets are 68 percent of Audit Products Delivered When Promised to Stakeholders and 85 percent of Recommendations Made That Have Been Implemented.
- During FY 2017, TIGTA initiated 22 proactive investigative initiatives to detect systemic weaknesses or potential IRS program vulnerabilities. TIGTA processed 10,638 complaints, opened 2,835 investigations, and closed 2,876 investigations in FY 2017. During this period, TIGTA referred for IRS action 1,119 cases of employee misconduct, and 168 cases of all types of investigations were accepted for criminal prosecution.
- For FY 2017, the Percentage of Results From Investigative Activities was 90 percent, which exceeded the full-year target of 81 percent by nine percentage points. The Office of Investigations exceeded the FY 2017 performance measure as a result of the hard work of experienced executives, managers, and special agents.
- For FY 2019, OI's performance target is 79 percent of Results from Investigative Activities. This number reflects the anticipated reduced number of experienced FTE which will decrease the total number of results OI will achieve as a result of its investigative activities.