Program Summary by Budget Activity

<table>
<thead>
<tr>
<th>Budget Activity</th>
<th>FY 2016 Enacted</th>
<th>FY 2017 Annualized CR</th>
<th>FY 2018 Request</th>
<th>FY 2017 TO FY 2018 $ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>$65,100</td>
<td>$64,976</td>
<td>$62,704</td>
<td>($2,272)</td>
<td>-3.50%</td>
</tr>
<tr>
<td>Investigations</td>
<td>$102,175</td>
<td>$101,981</td>
<td>$98,409</td>
<td>($3,572)</td>
<td>-3.50%</td>
</tr>
<tr>
<td>Subtotal, TIGTA</td>
<td>$167,275</td>
<td>$166,957</td>
<td>$161,113</td>
<td>($5,844)</td>
<td>-3.50%</td>
</tr>
<tr>
<td>Offsetting Collections - Reimbursables</td>
<td>$535</td>
<td>$1,500</td>
<td>$600</td>
<td>($900)</td>
<td>-60.00%</td>
</tr>
<tr>
<td>Total Program Operating Level</td>
<td>$167,810</td>
<td>$168,457</td>
<td>$161,713</td>
<td>($6,744)</td>
<td>-4.00%</td>
</tr>
<tr>
<td>Direct FTE</td>
<td>787</td>
<td>859</td>
<td>819</td>
<td>(40)</td>
<td>-4.66%</td>
</tr>
<tr>
<td>Reimbursable FTE</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total FTE</td>
<td>789</td>
<td>861</td>
<td>821</td>
<td>0</td>
<td>-4.65%</td>
</tr>
</tbody>
</table>

Note: FY 2016 FTE & Other Resources are Actual

Summary

The Treasury Inspector General for Tax Administration’s (TIGTA) Fiscal Year (FY) 2018 budget request of $161,113,000 represents a decrease of 3.5 percent below its FY 2017 Annualized Continuing Resolution (CR) 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 2018 priorities include:

- 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 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;
- Overseeing the IRS’s efforts to administer tax law changes related to health care; and

- Identifying opportunities to improve the administration of the Nation’s tax laws, improve tax compliance, and achieve program efficiencies and cost savings;
- Mitigating security risks affecting taxpayer data, tax systems, and Internal Revenue Service (IRS) employees;
- Protecting the integrity of the IRS by effectively investigating the international IRS impersonation scam that has impacted more than 1.9 million Americans;
• 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, 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 taxpayers’ data. TIGTA’s inspections and evaluations provides 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 $3.1 trillion in tax revenue in an effective and efficient manner.

**TIGTA FY 2018 Budget Highlights**

<table>
<thead>
<tr>
<th>Treasury Inspector General for Tax Administration</th>
<th>FTE</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2017 Annualized CR</td>
<td>859</td>
<td>$166,957</td>
</tr>
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</table>

**Changes to Base:**

- Maintaining Current Levels (MCLs): - $3,335
- Pay-Raise - $1,951
- Pay Annualization - $715
- Non-Pay - $669

Subtotal Changes to Base - $3,335

**Total FY 2018 Base** 859 $170,292

**Program Changes:**

- Reduce Audit and Investigation Activity Levels for Labor Costs and Staffing (40) ($9,179)
- Operating Cost Reductions - ($2,584)

**Total FY 2018 Request** 819 $161,113

**FY 2018 Budget Adjustments**

**Adjustments to Request**

**Maintaining Current Level (MCLs)**

**Pay-Raise +$1,951,000 / +0 FTE**

Funds are required for the proposed January 2018 pay-raise.

**Pay Annualization +$715,000 / +0 FTE**

Funds are required for annualization of the January 2017 pay-raise.

**Non-Pay +$669,000 / +0 FTE**

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

**Program Decreases**

**Reduce Audit and Investigation Activity Levels for Labor Costs and Staffing -$6,595,000 / -40 FTE**

Audit and Investigations Activity levels will be reduced for labor costs and FTE. Reaching this savings target without impacting the quality of TIGTA’s programs will require a combination of actions to include balancing mission and workload with available FTE. The reduction of 40 FTE will result in a reduced number of investigations and audits in FY 2018. Since FY 2015, the number of mandated audits increased from 17 to 22.
Therefore, for the Office of Audit (OA), a reduction of FTE will result in a higher percentage of resources being devoted to mandated audits versus the high-risk audits that are more likely to result in quantifiable outcomes, such as cost savings, revenue protection, and taxpayer privacy and security. For the Office of Investigations (OI), staffing reductions will limit TIGTA’s ability to respond to every allegation of IRS employee misconduct, and it will extend the amount of time it takes to investigate all of the allegations received by TIGTA.

**Operating Cost Reductions -$2,584,000 / +0 FTE**

TIGTA has closely scrutinized its operational requirements for the impact of budget reductions. With the reduction in FTE levels in Audit and Investigations Activities, there will be a corresponding reduction in operational costs. TIGTA continues to identify cost-savings in travel, training, and contracts. Further cuts will be made in these areas to reduce budget impact on TIGTA’s staffing levels. TIGTA will look for contract efficiencies from continued evaluation of contracts for strategic sourcing and negotiation of more advantageous contract terms. Additionally, TIGTA has aggressively implemented its telework program in order to reduce its footprint.

**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 2016, OA issued 89 audit reports that included potential financial benefits of approximately $14.6 billion and affected approximately 1 million taxpayer accounts. In FY 2014, several key Affordable Care Act (ACA) provisions became effective. Beginning in Calendar Year 2014, most individuals were required to maintain minimum essential coverage, and some low to middle-income individuals are eligible to receive the Premium Tax Credit. As such, FY 2015 and FY 2016 were significant years for oversight of ACA provisions. TIGTA’s independent oversight plays a key role in ensuring that these 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 investigates allegations of serious administrative and criminal misconduct committed by IRS employees. 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 2016, 45 percent of TIGTA’s investigative body of 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 85,000 employees and 540 facilities throughout the country. TIGTA maintains IRS employee and infrastructure security by conducting investigations into incidents that threaten IRS employees, facilities, and infrastructure. 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 March 31, 2017, TIGTA received more than 1.9 million reports related to this type of contact; and more than 10,300 taxpayers have been defrauded out of more than $55 million as a result of impersonation scams.

In May 2015, the IRS reported to TIGTA that criminals used taxpayer-specific data acquired from non-IRS sources to successfully gain unauthorized access to more than 100,000 tax accounts through IRS’s “Get Transcript” application. In August 2015, as a result of TIGTA’s investigative findings, the IRS conducted a deeper analysis in which it identified an additional 220,000 successful attempts to clear the “Get Transcript” verification process by individuals with taxpayer-specific sensitive data. The updated review also identified an additional 170,000 suspected attempts that failed to clear the authentication processes. Following TIGTA’s advice, the IRS disabled the “Get Transcript” application until this matter was investigated. On June 2016, after an extensive review, the IRS turned both the “Get Transcript” application and the associated E-Authentication gateway back on. However, the security of these two systems continues to...
be of great concern and OI is currently conducting investigations of recent breaches of the “new systems.”

As part of its overall investigation into the data breach, OI is conducting an in-depth forensic review of more than 300,000 accounts to determine if they were used for any other type of identity theft. The investigation will also identify the vulnerabilities that allowed the accounts to be stolen and will generate the evidence necessary to bring the responsible individuals to justice.

**Legislative Proposals**

TIGTA has no legislative proposals.

**TIGTA Performance Highlights**

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</thead>
<tbody>
<tr>
<td>Audit</td>
<td>Percentage of Audit Products Delivered when Promised to Stakeholders</td>
<td>65.0</td>
<td>80.0</td>
<td>75.0</td>
<td>68.0</td>
<td>68.0</td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>Percentage of Recommendations Made that Have Been Implemented</td>
<td>89.0</td>
<td>92.0</td>
<td>97.0</td>
<td>85.0</td>
<td>85.0</td>
<td></td>
</tr>
<tr>
<td>Investigations</td>
<td>Percentage of Results from Investigative Activities</td>
<td>92.0</td>
<td>93.0</td>
<td>90.0</td>
<td>81.0</td>
<td>81.0</td>
<td></td>
</tr>
</tbody>
</table>

Key: DISC - Discontinued, B – Baseline

**Description of Performance**

- For FY 2016, OA issued 89 final audit reports identifying approximately $14.6 billion in potential financial benefits.
- For FY 2016, the actual Percentage of Audit Products Delivered when Promised to Stakeholders was 75 percent, which exceeded the full-year target of 68 percent. TIGTA exceeded this target as a result of ongoing supervisory monitoring of the execution of audits to ensure timely audit products to stakeholders.
- The FY 2016 actual Percentage of Recommendations Made that Have Been Implemented was 97 percent. 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 2018, 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 2016, TIGTA initiated 16 proactive investigative initiatives to detect systemic weaknesses or potential IRS
program vulnerabilities. TIGTA processed 14,499 complaints, opened 2,879 investigations, and closed 2,887 investigations in FY 2016. During this period, TIGTA referred for IRS action 1,032 cases of employee misconduct, and 122 cases of all types of investigations were accepted for criminal prosecution.

- For FY 2016, the Percentage of Results from Investigative Activities was 90 percent, which exceeded the full-year target of 81 percent. OI exceeded the FY 2016 performance measure as a result of the hard work of experienced executives, managers, and special agents.

- For FY 2018, OI’s performance target is 79 percent of Results from Investigative Activities. This number is adjusted to reflect the fewer number of experienced FTE which will decrease the total number of results OI will achieve as a result of its investigative activities.