

Treasury Inspector General for
Tax Administration

FY 2017
President's Budget

February 9, 2016

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Section 1 – Purpose

1A – Mission Statement

Provide quality professional audit, investigative, and inspection and evaluation services that promote integrity, economy, and efficiency in the administration of the Nation’s tax system.

1.1 – Appropriations Detail Table

Dollars in Thousands

Treasury Inspector General for Tax Administration Appropriated Resources	FY 2015		FY 2016		FY 2017		FY 2016 to FY 2017			
	Enacted		Enacted		Request		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	349	61,572	358	65,100	358	66,020	0	920	0%	1.41%
Investigations	486	96,638	501	102,175	501	103,614	0	1,439	0%	1.41%
Subtotal New Appropriated Resources	835	\$158,210	859	\$167,275	859	\$169,634	0	\$2,359	0%	1.41%
Other Resources:										
Reimbursables	2	1,500	2	1,500	2	1,500	0	0	0%	0.00%
Subtotal Other Resources	2	\$1,500	2	\$1,500	2	\$1,500	0	\$0	0%	0.00%
Total Budgetary Resources	837	\$159,710	861	\$168,775	861	\$171,134	0	\$2,359	0%	1.40%

1B – Vision, Priorities, and Context

The Treasury Inspector General for Tax Administration (TIGTA), an independent office within the Department of the Treasury, was created by Congress as a part of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98).¹ TIGTA has a statutory mandate to provide oversight by conducting independent audit, investigative, and inspection and evaluation services necessary to improve the quality and credibility of Internal Revenue Service (IRS) operations, including oversight of the IRS Chief Counsel and the IRS Oversight Board. TIGTA conducts independent reviews and provides an unbiased perspective for improving the economy, efficiency, and effectiveness of IRS programs. TIGTA makes recommendations designed to improve the administration of the federal tax system; conducts administrative and criminal investigations of allegations of waste, fraud, and abuse; and helps to ensure that the IRS protects and secures taxpayers’ data. TIGTA also has the unique responsibility of protecting the IRS and its employees.

TIGTA continues to be committed to its vision and mission, and to accomplishing its strategic goals and objectives. TIGTA safeguards the integrity and the public’s trust and confidence in federal tax administration through the audits, investigations, and inspections and evaluations it conducts. TIGTA’s role is important, given the current economic environment and the increased emphasis by the Administration, Congress, and the American people on the federal government’s accountability and efficient use of resources.

¹ Pub. L. No. 105-206, 112 Stat. 685.

TIGTA Vision

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.

TIGTA's *Fiscal Year (FY) 2013 – 2016 Strategic Plan* guides program and budget activities and supports the Department of the Treasury's FY 2014-2017 Strategic Plan (the Plan), which includes Strategic Goal 3: "Fairly and effectively reform and modernize federal financial management, accounting, and tax systems."

TIGTA's vision is consistent with Objective 3.2 of the Plan, "Improve the disbursement and collection of federal funds and reduce improper payments made by the U.S. Government." Likewise, TIGTA's vision supports Objective 3.3 of the Plan, "Pursue tax reform, implement the Patient Protection and Affordable Care Act (ACA)² and the Foreign Account Tax Compliance Act (FATCA),³ and improve the execution of the Internal Revenue Code (IRC or tax code)."

TIGTA Strategic Goals

Promote the economy, efficiency, and effectiveness of tax administration.

Protect the integrity of tax administration.

Be an organization that values its people.

TIGTA's progress in meeting the strategic goal of valuing its people was demonstrated last year when the Partnership for Public Service announced the results of the 2015 *Best Places to Work* rankings. TIGTA placed 9 out of 320 agency subcomponents. The scoring index measured the performance of agency subcomponents with respect to employee satisfaction and commitment. Among all Treasury bureaus, TIGTA placed the highest in this ranking.

TIGTA's headquarters facility is in Washington, D.C., and TIGTA has 67 offices located throughout the United States and Puerto Rico. TIGTA is uniquely organized by function (Figure 1) to meet current tax administration challenges and to keep pace with emerging issues. These functions include:

- Office of Audit (OA) – This Office conducts audits and issues reports that advise the American people, Congress, the Secretary of the Treasury, and IRS management of high-risk issues relating to the administration of IRS programs and operations. TIGTA's audit recommendations aim to improve IRS systems and operations, while emphasizing fair and equitable treatment of taxpayers.
- Office of Investigations (OI) – This Office investigates external threats of violence against IRS employees and facilities and internal allegations of criminal and administrative misconduct by IRS employees and contractor. OI also conducts investigations to protect the

² Pub. L. No. 111-148, 124 Stat. 119, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1012.

³ Hiring Incentives to Restore Employment Act of 2010, Title V, Pub. L. 111-147, 124 Stat. 71.

IRS against bribery attempts, impersonations, and external, cyber-based, and often globally-complex threats that would impede the IRS's ability to collect revenues and safeguard the processing of approximately 242 million returns annually.

- Office of Inspections and Evaluations (I&E) – This Office provides responsive, timely, and cost-effective inspections and evaluations of challenging areas in IRS programs. I&E's oversight activities include inspecting IRS's compliance with established system controls and operating procedures and evaluating IRS operations for high-risk systemic inefficiencies.

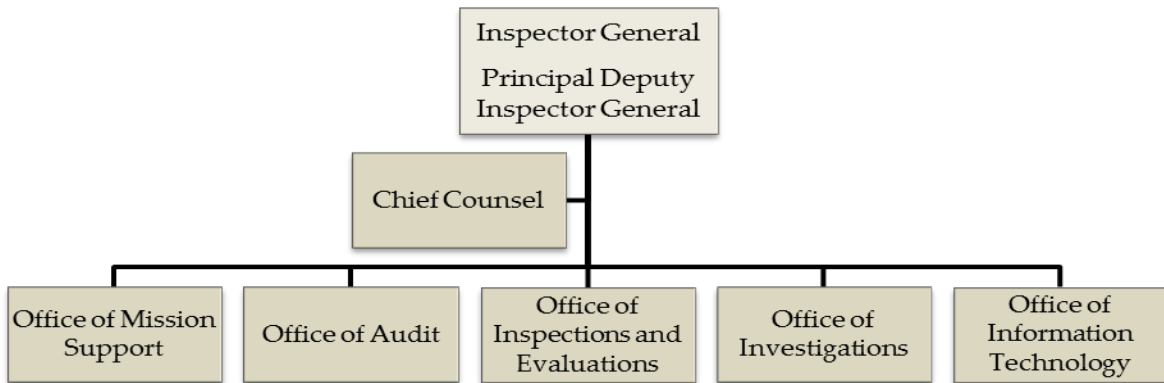


Figure 1: TIGTA's Organizational Structure

Key Accomplishments and Budget Savings

While the scope, complexity, and magnitude of the Nation's economy and deficit continue to present significant challenges, TIGTA remains one of the best investments in the federal government. In FY 2015, through targeted and vigorous oversight efforts that addressed congressional concerns and audit and investigative priorities, TIGTA generated overall financial accomplishments of over \$26.6 billion.

During FY 2015, these financial accomplishments included:

- Increased and/or protected revenue in the amount of \$17.4 billion;
- Cost savings of \$9.1 billion; and
- Significant investigative accomplishments of \$.05 billion.

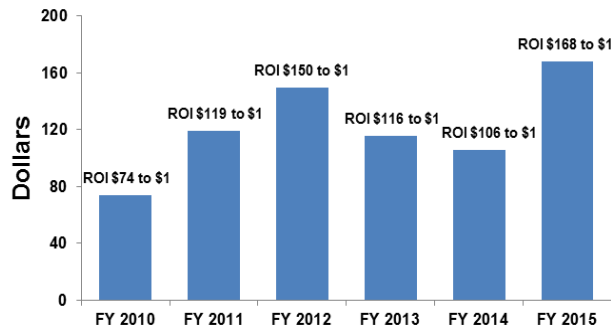


Figure 2: TIGTA's Return on Investment (ROI)

Funding for TIGTA allows oversight efforts to continue, and in FY 2015 these efforts produced a return on investment (ROI) of \$168 for every \$1 invested (Figure 2). During that period TIGTA issued audit reports with recommendations that potentially increased and/or protected revenue of \$17.4 billion. For example, based on an analysis of education credits claimed and received on Tax Year 2012 tax returns, TIGTA projected that approximately \$11 billion in potentially erroneous education credits could be paid over the next several years if corrective actions are not taken. Increased/protected revenue includes the assessment or collection of additional taxes (increased revenue) and the validation of the accuracy of the total taxes, penalties, and interest paid to the federal government (revenue protection). TIGTA reports total projections in the year the audit is completed. TIGTA also issued audit reports with

recommendations that identified a potential \$9.1 billion in cost savings. The phrase “cost savings” includes questioned costs and funds put to better use.

Questioned costs are:

- Costs that cannot be reimbursed because they represent a violation of law, regulation, or contract;
- Expenditures that are not reasonable or necessary to accomplish the intended purpose; and
- Costs that are appropriate, but for which the vendor cannot provide proof that the cost was incurred.

Funds put to better use means funds that could be used more efficiently or effectively if management took actions to implement the recommendation(s), including but not limited to:

- Reductions in outlays;
- Avoidance of unnecessary expenditures noted in pre-award contract reviews; and
- Prevention of erroneous payment of refundable credits.

In addition to funds that could be put to better use, TIGTA’s investigative efforts resulted in \$40,443,892 in court-ordered fines, penalties, and restitution.

FY 2017 Budget Request

TIGTA’s FY 2017 budget request of \$169,634,000 represents an increase of 1.41 percent above its FY 2016 budget request. These resources will fund critical audit, investigative, and inspection and evaluation services to protect the integrity of the Nation’s system of tax administration.

In accordance with the requirements of Section 6(f) (1) of the Inspector General Act of 1978 (as amended),⁴ TIGTA submits the following information related to its FY 2017 Budget Request:

- The aggregate budget request for TIGTA operations is \$169,634,000;
- The portion of the request needed for TIGTA training is \$1,800,000; and
- The portion of the request needed to support the Council of the Inspectors General on Integrity and Efficiency is \$508,900.

The amount requested for training supports TIGTA’s training needs for FY 2017.

FY 2017 Priorities

TIGTA’s audit, investigative, and inspection and evaluation priorities include:

- Identifying opportunities to improve the administration of the Nation’s tax laws and achieve program efficiencies and cost savings;
- Mitigating risks associated with security for taxpayer data and IRS employees; tax systems and online services; identity theft; oversight of tax-exempt organizations; tax compliance; the implementation of tax law changes; and human capital challenges facing the IRS in its domestic and/or international operations;
- Developing advanced analytics and innovative approaches to help prevent and detect the flow of dollars fraudulently obtained by criminals and IRS employees to help ensure the security of IRS and TIGTA data;

⁴ 5 U.S.C. app. 3 § 6(f)(1).

- Providing the IRS with the investigative coverage and the information necessary to mitigate threats against its employees, facilities, and data systems;
- Responding to domestic and foreign threats and attacks against IRS employees, property, data infrastructure, and sensitive information;
- Rapidly and effectively responding to attempts to impersonate the IRS for fraudulent purposes;
- 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;
- Informing the American people, Congress, and the Secretary of the Treasury of problems on a timely basis once all facts are known;
- Overseeing the IRS's efforts to administer tax provisions of the ACA; and
- Overseeing the IRS's efforts to increase international tax compliance.

Office of Audit

The budget for OA provides funding for comprehensive and independent audits of IRS programs and operations that help promote sound administration of the Nation's tax laws. Audit coverage is determined by assessing the risks associated with the potential audit universe and identifying the highest priority audits to address major management challenges and key emphasis areas.

Sufficient funding will allow TIGTA to continue its oversight responsibilities and audit coverage of the major management challenges facing the IRS. Audit activities are also focused on assessing key areas in which the IRS faces major risks, including:

- ACA implementation and administration;
- Identity theft detection and prevention;
- International tax compliance; and
- Oversight of the tax-exempt organizations.

The ACA resulted in the largest set of tax law changes in 20 years, with more than 40 provisions modifying or expanding the IRC. These provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. They also impose penalties, administered in accordance with the IRC, for individuals and businesses that do not obtain health coverage for themselves or their employees. TIGTA's independent oversight plays a key role in ensuring that the provisions are implemented and administered in accordance with the law and the intent of Congress.

Beginning with the filing of Tax Year (TY) 2014 returns, individuals must indicate whether they maintain minimum coverage for themselves and their dependents. Individuals who do not maintain minimum coverage and are not exempt from the requirement will have to pay a penalty. To assist individuals with the cost of their health insurance premiums, the ACA also created a refundable tax credit, referred to as the Premium Tax Credit. Individuals who receive advance payments must file a tax return to reconcile advanced payments to their allowable credit beginning in the 2015 filing season. TIGTA will continue to evaluate the IRS's effectiveness in

ensuring compliance with the individual coverage mandate and the accuracy of Premium Tax Credit claims.

FY 2016 will be a significant year for the IRS's implementation of ACA provisions. The ACA requires employers and insurers to file information returns with the IRS identifying individuals to whom employers offered health insurance and indicating whether the insurance offered met minimum requirements. Reporting of this information to the IRS was delayed from 2015 to 2016. TY 2015 will be the first in which the IRS will have all of the reporting information required to verify related claims on individual tax returns. In addition, certain employers offering minimum coverage will be required to report to the IRS whether they offer full-time employees and their dependents the opportunity to enroll in coverage. An assessed payment will be imposed on employers who fail to provide employees with the opportunity to enroll in minimum coverage plans. TIGTA will also assess the IRS's efforts to develop processes to identify employers not filing information reports and not offering insurance that meets minimum requirements.

TIGTA will continue its assessment of IRS's development of systems to prevent, detect, and resolve fraud and abuse during ACA tax return processing. The IRS's ACA implementation plan is designed, when fully developed and implemented, to leverage third-party reporting from the exchanges and the Return Review Program. The plan calls for the development of the ACA Verification Service to identify improper ACA-related refunds. The ACA Verification Service will be designed to screen improper refunds and identify fraud including multiple returns. Until these new systems are successfully developed, TIGTA is concerned that the IRS's existing fraud detection system may be incapable of identifying ACA refund fraud prior to the issuance of tax refunds. Many of the ACA tax provisions relating to Health and Human Services (HHS) and IRS processes and procedures will also require continued coordination between TIGTA and HHS's Office of Inspector General during FY 2016.

Identity theft poses another significant and growing problem affecting tax administration. Identity theft tax fraud occurs when an individual uses another person's name and Taxpayer Identification Number (generally a Social Security Number) to file a fraudulent tax return to obtain a refund. The IRS has made this issue one of its top priorities; however, significant improvements are still needed.

A real-time example of TIGTA's need to have the newest technology, data tools, and human resources to investigate complex financial crimes occurred in May 2015. The IRS originally reported to TIGTA that criminals used taxpayer-specific data acquired from non-IRS sources to successfully gain unauthorized access to over 100,000 tax accounts through the IRS's "Get Transcript" application. In August 2015, as a result of TIGTA's investigation, 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 is investigated. As of February 2016, the "Get Transcript" application is still disabled and under further investigation. The loss of taxpayer account information will also be reviewed by OA to determine if appropriate controls and

policies were in place to safeguard taxpayers' information. In addition, OA will evaluate the adequacy of the assistance provided by the IRS to victims of the data breach.

The risk for this type of unauthorized access to tax accounts will continue to grow as the IRS focuses its efforts on delivering taxpayers self-assisted interactive online tools. The IRS Commissioner's vision is to provide taxpayers and tax professionals with more robust online services, based on the idea of allowing access to government services anywhere, anytime, on any device, in three to five years. In addition to the IRS's Get Transcript application, the IRS also provides several other online services that could also pose a risk for unauthorized access.

International tax compliance remains a significant area of concern for the IRS, which is responsible for ensuring that all international taxpayers are compliant with U.S. tax obligations. In the past, TIGTA found that the IRS did not provide effective oversight to the International Collection program, which contributed to several control weaknesses in the program. The scope, complexity, and magnitude of the international financial system present significant challenges for the IRS. The number of taxpayers conducting international business transactions continues to grow as technology provides new opportunities for offshore investments.

OA has a continuing need to provide close oversight of the IRS's tax-exempt organization program. These entities are not subject to federal income tax, but they represent a significant aspect of tax administration.

Office of Investigations

In FY 2015, through its investigative programs, OI sought to protect the IRS's ability to process 242 million tax returns and collect more than \$3.1 trillion in annual revenue for the federal government by investigating IRS employee misconduct and criminal activity, threats to IRS employees and facilities, and attempts to impede or otherwise interfere with the IRS's collection efforts (Figure 3).

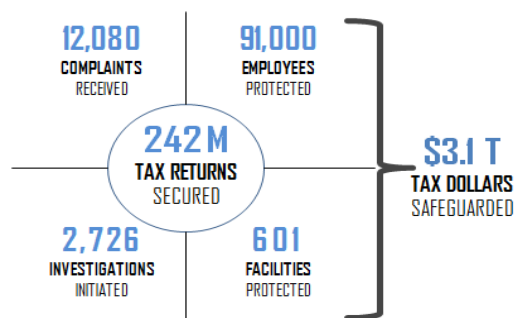


Figure 3: TIGTA's Protection of the Federal Tax System

Funding OI allows TIGTA to meet the significant challenges facing the IRS in the implementation of a fair and effective system of tax administration. IRS employees are entrusted with sensitive personal and financial information belonging to American taxpayers. As the federal tax system is based on voluntary compliance, it is also essential to the public's confidence that information given to the IRS for tax administration purposes be adequately safeguarded and kept confidential. Employee misconduct not only breaks the public's trust and confidence, but also undermines the IRS's ability to deliver taxpayer service, enforce tax laws effectively, and collect taxes owed.

OI places the highest priority on its statutory responsibility to safeguard approximately 91,000 IRS employees located in 601 facilities throughout the United States. Threats of physical violence, harassment, and intimidation of IRS employees are criminal violations that OI aggressively investigates and refers for prosecution. As a result, IRS employees feel more secure

in their work environment and can focus on performing their critical jobs. By maintaining a constant focus on the expanding threat environment, OI balances its attention on this critical area with its other investigative programs that help to protect the integrity of the federal tax system.

Emerging Issues

Impersonation Scam: Since summer 2013, a significant part of TIGTA's workload has consisted of investigating a telephone impersonation scam in which a victim receives an unsolicited telephone call from a person claiming to be an IRS agent. The caller, using a fake name, provides a "badge number" and claims the victim owes taxes and is criminally liable for the amount owed. The victim is threatened that if he or she fails to pay the tax immediately, the victim will be arrested, a suit will be filed, or some other form of adverse action will be taken. As of December 2015, TIGTA had received more than 896,000 reports of these calls, between 10,000 and 13,000 each week. To date, more than 5,000 victims have paid more than \$26.5 million to the scammers. This nationwide scam is being conducted by criminals who are part of a broader international ring of scam artists operating outside the United States. The scam artists use Voice-Over Internet Protocol technology, which makes it more difficult for investigators to identify criminals. The FY 2017 budget request includes resources needed to investigate these crimes and prevent more people from being victimized.

Data Breach: In May 2015, the IRS originally 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 has been investigated. As of February 2016, the "Get Transcript" application is still disabled and under further investigation.

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 to generate the evidence necessary to bring the responsible individuals to justice.

ACA: TIGTA anticipates a significant rise in the number of complaints and investigations in FY 2017 because of the IRS's increased role in the ACA implementation. This budget request will allow TIGTA to investigate ACA-related allegations, timely respond to threats and assaults against IRS employees and facilities, and provide armed escorts to IRS employees who meet with potentially dangerous taxpayers. TIGTA anticipates an increase in:

- The number of threats against IRS employees and facilities as the IRS begins collecting ACA tax penalties that took effect in Calendar Year (CY) 2015;
- The number of ACA-related investigations of impersonations by criminals attempting to fraudulently obtain personally identifiable information from unsuspecting taxpayers; and
- The number of employee integrity investigations, to ensure that IRS employees and contractors are appropriately safeguarding sensitive information from taxpayers' health

insurers, and to reduce the potential for unauthorized access to, or disclosure of, confidential taxpayer information.

International Cybercrimes and Identity Theft: By the end of CY 2013, the IRS had reported nearly 2.9 million identity theft cases, of which taxpayers had reported 13 percent and the IRS had detected approximately 87 percent. The tools and techniques used by the perpetrators of identity theft are such that they can be deployed from anywhere in the world, without regard to borders, using Internet-connected computers. OI's highly specialized group of criminal investigators with technical expertise in investigating electronic crimes, including computer intrusions and Internet-based fraud schemes, will continue to combat cybercriminals.

The electronic system of tax administration that is conducted over IRS computer networks is targeted for malicious activity each day from network connections located throughout the world. Because many cybercriminals reside outside the United States, TIGTA special agents work with law enforcement personnel in foreign countries to identify leads and execute search and arrest warrants (Figure 4). OI will continue to support these critical international investigations with its highly trained special agents.



Figure 4: Examples of countries linked to TIGTA cybercrimes investigations

Office of Inspections and Evaluations

I&E provides a range of specialized services and products, including quick reaction reviews, on-site office inspections, and in-depth evaluations of major functions, activities, or programs.

Inspections serve to:

- Provide factual and analytical information;
- Monitor compliance;
- Measure performance;
- Assess the effectiveness of programs and operations;
- Share best practices; and
- Inquire into allegations of waste, fraud, abuse, and mismanagement.

Evaluations often result in recommendations to streamline IRS operations, enhance data quality, and minimize inefficient and ineffective procedures. In FY 2015, I&E produced four reports reviewing:

- The IRS's use of its streamlined critical pay authority;
- Adherence to required bargaining processes and federal guidance in payment of FY 2013 employee performance awards;
- Whether requests for taxpayer information were processed properly; and
- Significant unimplemented corrective actions, as shown in the September 30, 2015 Semiannual Report to Congress.

I&E provides TIGTA with additional flexibility, capacity, and capability to produce value-added products and services to improve tax administration. Inspections usually are more limited in scope and are completed in a more compressed period of time than are traditional audits. The work of I&E complements OA and OI, and its findings may result in subsequent audits and/or investigations.

Office of Information Technology

The Office of Information Technology (OIT) provides cost-effective, timely information technology (IT) products and services that permit successful completion of TIGTA's business goals, while at the same time meeting legislative mandates. By developing, providing, and supporting a wide variety of IT products and services, OIT facilitates the collection, management, analysis, and dissemination of information for the benefit of audit, investigative, legal, and management services.

TIGTA's OA, OI, and I&E functions rely heavily on the products and services provided by OIT to execute TIGTA's mission. IT is the dynamic force that allows auditors, special agents, and inspectors and evaluators to accomplish their objectives within the staffing and physical constraints that might otherwise prevent their completion. As the demands on the organization grow, it becomes increasingly dependent on the use of technology. Those demands translate into the need for more and improved IT services as well as a skilled staff to provide those services to the organization.

TIGTA has no major IT investments, based on the criteria of the Office of Management and Budget (OMB) and the Department of the Treasury. Several non-major investments, however, directly support the mission, strategy, and day-to-day operations of TIGTA. These investments include:

- **Telecommunications Infrastructure** – The utilization of smaller devices (e.g., smartphones and tablets) requires new and different types of connectivity to serve the increasingly mobile workforce. Greater capacity, additional services, and lower cost alternatives are also necessary to meet the ever growing needs of a changing workforce. TIGTA's OIT also faces the challenges of migrating to a new Department-wide telecommunications contract along with meeting user expectations.
- **Refreshed Applications and Collaboration Environment** – Given the evolving work model, not only are new applications expected to be available on the mobile platforms, but also legacy and mission critical applications will need to be adapted to this mode of operation.
- **Secure IT Mobility** – The emphasis on ensuring TIGTA has proper controls in place will only increase as the number and frequency of intrusions and data losses highlight the importance of IT security. To prevent the compromise of the data TIGTA obtains, it must aggressively ensure that its own security posture is properly maintained.
- **Server and Storage Infrastructure** – Deep data analysis and predictive analysis will require additional resources to prevent waste, fraud, and abuse.

Safeguarding the IRS and Providing Comprehensive Oversight

TIGTA places its highest priority on ensuring the safety and security of IRS employees and facilities. TIGTA evaluates intelligence information regarding potential violent acts against the IRS and develops proactive leads from other law enforcement agencies and sources to mitigate potential threats.

As part of TIGTA's oversight activities, the Threat Information and Critical Incident Response Center Initiative was created to ensure that threats against IRS personnel, facilities, or critical infrastructure are effectively and proficiently identified, investigated, and mitigated.

Additionally, OI has established a Threat Information Notification System (TINS) to ensure the efficient and accurate distribution of threat-related information to all impacted stakeholders. The TINS protocol supports key personnel within TIGTA and the IRS, and provides for real-time information sharing to facilitate the protection of the IRS's most important resource, its employees. TIGTA and the IRS are positioned to make decisive investigative and security decisions affecting IRS personnel, facilities, and critical infrastructure well into the future.

Security for Taxpayer Data and Employees: The IRS faces the daunting task of securing its computer systems against the growing threat of cybercrime. Effective information systems security is essential to ensure that data are protected against inadvertent or deliberate misuse, unauthorized disclosure, or destruction, and that computer operations supporting tax administration are secured against disruption or compromise. In addition to securing a vast amount of sensitive financial and personal data, the IRS must also protect approximately 91,000 employees and 601 facilities throughout the United States. These operating conditions are challenging for the IRS and underscore the need for continued vigilance in the area of physical and personnel security.

To prevent the compromise of sensitive taxpayer information, TIGTA proactively identifies IRS employees who access tax information without authorization. This is referred to as IRS Unauthorized Access, Attempted Access or Inspection of Taxpayer Records or commonly known as UNAX. The initial investigation into an allegation of UNAX by an IRS employee often leads to the discovery of other criminal violations, including fraud and identity theft. The importance of efforts to detect UNAX is often underestimated, because too often UNAX is seen as browsing by bored employees. IRS employees who are found to have committed UNAX violations may be subject to fines, imprisonment, and/or loss of their jobs. In FY 2015, TIGTA initiated 225 UNAX investigations and closed 197 cases that resulted in adjudicated personnel actions against IRS employees.

Another of TIGTA's significant oversight responsibility areas is the review of the IRS's computer applications that contain sensitive information. The IRS currently has 132 application systems that process sensitive data, of which 83 are considered to be at risk for UNAX. With the FY 2017 resources, TIGTA will be able to ensure that these applications are evaluated properly and provide any necessary recommendations, so the IRS can implement improvements to mitigate these risks.

OI will conduct in-depth forensic review of taxpayer accounts that were compromised, as first reported in May 2015 by the IRS, when criminals used taxpayer-specific data acquired from non-

IRS sources to successfully gain unauthorized access to tax accounts through IRS's "Get Transcript" application. The investigation will also identify the vulnerabilities that allowed the accounts to be stolen and to generate the evidence necessary to bring the responsible individuals to justice. The loss of taxpayer account information will also be reviewed by OA to determine if appropriate controls and policies were in place to safeguard the taxpayers' information.

TIGTA's outreach program continues to play an important role in its broader efforts to raise the awareness of, educate, and train IRS employees and tax practitioners about potential threats and crimes against the IRS and taxpayers. Every year, special agents conduct security awareness presentations to educate IRS employees of TIGTA's oversight responsibility and share information to help identify ways to prevent physical assaults and threats and deter waste, fraud, and abuse. In FY 2015, TIGTA provided 1,119 awareness presentations to 36,240 IRS employees and 35 awareness presentations to 3,180 tax practitioners and preparers.

Fraudulent Claims and Improper Payments: The Improper Payments Information Act of 2002⁵ defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (both overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Improper payments by federal government agencies have been an issue for many years, and numerous efforts have been made to identify, measure, and reduce them. In FY 2015, TIGTA issued a report noting that 3,285 electronically-filed corporate income tax returns filed in 2013 claimed potentially erroneous carryforward credits totaling over \$2.7 billion. In addition, a programming error prevented more than \$170 million in Empowerment Zone Employment credits claimed in CY 2013 from being received by the corporations claiming the credit.

According to another FY 2015 TIGTA report, the IRS does not have an effective process for identifying erroneous claims for education credits. TIGTA estimated that taxpayers received more than \$5.6 billion in potentially erroneous education credits claimed on TY 2012 returns. TIGTA projected that approximately \$11 billion in potentially erroneous education credits could be paid over the next several years if corrective actions are not taken.

Tax Compliance Initiatives: Increasing budgetary pressure has led to a reduction of IRS resources in the enforcement area, which affects how the IRS addresses tax noncompliance. In FY 2015, TIGTA reported additional actions to enforce payment card reporting requirements could reduce the tax gap. TIGTA found that taxpayers are not compliant with backup withholding requirements directing a taxpayer to immediately withhold 28 percent of amounts reported on Forms 1099-K for payees that failed to provide a valid Taxpayer Identification Number (TIN). TIGTA's review of Calendar Year 2013 Forms 1099-K identified 10,216 forms with a missing TIN. The Forms 1099-K reported gross transactions totaling more than \$10.6 billion. To address the challenges, TIGTA made seven recommendations; the IRS agreed to six of them and implemented pilot initiatives in an effort to identify payment card noncompliance.

Advising Congress: In FY 2015, TIGTA provided six testimonies, more than 25 briefings, and more than five official written responses to Congress on its audit, investigative, and inspection

⁵ Pub. L. No. 107-300, 116 Stat. 2350.

and evaluation activities. Through direct communication, TIGTA aims to address the interest of congressional committees in critical issues involving IRS programs and operations.

Fraud and Electronic Crime: Historically, investigations and audits have shown that the sensitivity of the data the IRS collects makes such data an attractive target for employees, hackers, and others residing throughout the world, who could use the information to commit crimes involving fraud and identity theft. TIGTA's audit, investigative, and inspection and evaluation work provides coverage of this growing national and international problem, providing proactive prevention and detection efforts that are critically necessary in this highly vulnerable and ever-evolving area. As described in Homeland Security Presidential Directive 7, IRS operations that fund the federal government are part of the Nation's key resources and critical infrastructure, which provide essential services that underpin American society. Degradation of the public's trust in the tax system could lead to a decline in voluntary compliance and present a risk to national security.

Promoting Efficient Spending and the Campaign to Cut Waste: TIGTA continues to uphold its commitment to promote efficient spending and cut waste. All investments and procurements undergo a rigorous review by TIGTA's Investment Review Board. The Board performs regular monitoring of these investments to ensure proper management. For FY 2016 and FY 2017, TIGTA will continue to scrutinize its budget and identify areas for cost savings and efficiencies. For example, TIGTA will generate savings from the reduction of personnel investigations it will need to conduct based on the results of an ongoing position sensitivity designation review.

In order for TIGTA to maintain a highly skilled, proactive, and diverse Inspector General organization with a reputation of protecting and promoting fair tax administration, its employees will require ongoing training to meet the challenge of staying abreast of changing IRS programs and priorities. In addition, TIGTA will ensure that its workforce receives training that strengthens the knowledge and skills it needs to continue to protect the public and to ensure Congress's confidence in the tax system.

Section 2 – Budget Adjustments and Appropriations Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Treasury Inspector General for Tax Administration	FTE	Amount
FY 2016 Enacted	859	\$167,275
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$2,376
Pay-Raise	-	\$1,315
Pay Annualization	-	\$437
Non-Pay	-	\$624
Efficiency Savings:	-	(\$17)
Personnel Security Background Investigations	-	(\$17)
Subtotal Changes to Base	-	\$2,359
Total FY 2017 Base	859	\$169,634
Total FY 2017 Request	859	\$169,634

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$2,376,000 / +0 FTE

Pay-Raise +\$1,315,000 / +0 FTE

Funds are requested for the proposed January 2017 pay-raise.

Pay Annualization +\$437,000 / +0 FTE

Funds are requested for annualization of the January 2016 pay-raise.

Non-Pay +\$624,000 / +0 FTE

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

Efficiency Savings -\$17,200 / +0 FTE

Personnel Security Background Investigations - \$17,200 / +0 FTE

TIGTA will generate a savings of \$17,200 from a reduction in the number of personnel investigations it will need to conduct based on the results of an ongoing position sensitivity designation review.

2.2 – Operating Levels Table

Dollars in Thousands

Treasury Inspector General for Tax Administration	FY 2015	FY 2016	FY 2017
Object Classification	Actual	Enacted	Request
11.1 - Full-time permanent	81,433	91,135	91,726
11.3 - Other than full-time permanent	445	590	594
11.5 - Other personnel compensation	7,991	8,405	8,460
11.9 - Personnel Compensation (Total)	89,869	100,130	100,780
12.0 - Personnel benefits	33,470	34,307	35,409
Total Personnel Compensation and Benefits	\$123,339	\$134,437	\$136,189
21.0 - Travel and transportation of persons	4,295	3,514	3,581
22.0 - Transportation of things	18	19	19
23.1 - Rental payments to GSA	9,197	9,221	9,396
23.2 - Rental payments to others	150	229	233
23.3 - Communication, utilities, and misc. charges	519	1,829	1,864
24.0 - Printing and reproduction	6	7	7
25.1 - Advisory and assistance services	2,067	790	805
25.2 - Other services	1,030	708	721
25.3 - Other purchases of goods & servs from Govt accounts	10,233	8,218	8,357
25.4 - Operation and maintenance of facilities	13	416	424
25.7 - Operation and maintenance of equip	2,494	926	944
26.0 - Supplies and materials	945	1,052	1,072
31.0 - Equipment	4,593	5,832	5,943
42.0 - Insurance claims and indemnities	4	52	53
91.0 - Confidential Expenditures	36	25	26
Total Non-Personnel	\$35,600	\$32,838	\$33,445
Subtotal New Appropriated Resources	\$158,939	\$167,275	\$169,634
Budget Activities:			
Audit	57,845	65,700	66,620
Investigations	101,906	103,075	104,514
Total Budgetary Resources	\$159,751	\$168,775	\$171,134
FTE	758	861	861

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;"> DEPARTMENT OF THE TREASURY TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION Federal funds SALARIES AND EXPENSES </p> <p> For necessary expenses of the Treasury Inspector General for Tax Administration in carrying out the Inspector General Act of 1978, as amended, including purchase and hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services authorized by 5 U.S.C. 3109, at such rates as may be determined by the Inspector General for Tax Administration; [\$167,275,000,] \$169,634,000, of which \$5,000,000 shall remain available until September 30, [2017] 2018; of which not to exceed \$6,000,000 shall be available for official travel expenses; of which not to exceed \$500,000 shall be available 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]. (Department of the Treasury Appropriations Act, 2016.) </p>	

2C – Legislative Proposals

TIGTA has no legislative proposals.

Section 3 – Budget and Performance Plan

3A – Audit

(\$66,020,000 from direct appropriations and \$600,000 from reimbursable resources):

TIGTA identifies opportunities to improve the administration of the Nation’s tax laws by completing comprehensive and independent performance and financial audits of IRS programs and operations. TIGTA’s audit program incorporates both statutory audit requirements and specific audits identified through TIGTA’s risk assessment process. 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 spent in the areas of highest vulnerability to the Nation’s system of tax administration. By focusing on the most critical areas, TIGTA identifies and recommends improvements that add value while addressing high-risk tax administration issues. In FY 2015, OA issued 92 final audit reports that included potential financial benefits totaling approximately \$26.6 billion and affected approximately 5.3 million taxpayer accounts.

Each year, TIGTA identifies and addresses the major management and performance challenges and key issues confronting the IRS. OA identifies the major risks facing the IRS and annually proposes a national audit plan based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses. To keep apprised of operating conditions and emerging issues, TIGTA maintains liaison and consults on an ongoing basis with applicable stakeholders, such as IRS executives, the IRS Oversight Board, the Department of the Treasury, the Government Accountability Office, and Congress.

TIGTA’s Annual Audit Plan communicates audit priorities to the IRS, Congress, and other interested parties. Many of the activities described in the Annual Audit Plan address the fundamental goals related to the IRS’s mission to administer its programs effectively and efficiently. Audits address a variety of high-risk issues, such as ACA implementation and administration, identity theft detection and prevention, security of taxpayer data, tax compliance, fraudulent claims and improper payments, tax systems and online services, tax-exempt organizations, and globalization. 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.

TIGTA’s recommendations not only result in cost savings, but also have other quantifiable impacts, such as the protection of existing revenue, increased revenue, and reduction of the number of fraudulent refunds and improper payments.

In addition to its coverage of the major management challenges facing the IRS, OA places importance on key emphasis areas based on significance and impact on tax administration:

- ***ACA Implementation and Administration*** – The ACA impacts individual and business taxpayers at all income levels, IRS compliance and enforcement programs, information reporting requirements, the administration of tax penalties, and information technology. Ensuring the confidentiality of taxpayer data provided to the Federal and State Exchanges, developing a compliance strategy for certain requirements of the ACA, and identifying potential fraud related to the premium tax credit provision are all challenges facing the IRS.

In FY 2015, TIGTA identified that the IRS needs to ensure that health insurance policy issuers and self-insured sponsors are paying a Patient-Centered Outcome Research (PCOR) fee (ACA excise tax) based on the average number of lives covered. The new fee is used to offset the costs of the PCOR Institute, which funds research to assist decision-making for patients and healthcare providers. For TY 2012, TIGTA found that of 72,035 health insurance policy issuers/self-insured plan sponsors, 30,996 (43 percent) paid a PCOR fee of less than \$4.25, which is the IRS's cost to process these returns.

- ***Tax-Exempt Organizations*** – The IRS's prior use of inappropriate criteria for selecting and reviewing applications for tax-exempt status has been a significant concern, and the IRS has made substantial changes in its administration of this process. However, a FY 2015 audit determined that the IRS uses a subjective process that will be replaced with a clearly defined social welfare test upon finalized guidance from the Department of the Treasury.
- ***Identity Theft Detection and Prevention*** – Stopping identity theft and refund fraud continues to be a top priority for the IRS, as its work in these areas continues to grow and includes nearly every part of the organization. The IRS has put in place a strategy to prevent fraud, investigate these crimes, and assist taxpayers victimized by identity thieves. While the IRS has made progress, this is no comfort to the victims and the IRS needs to do more. In May 2015, the IRS originally announced that criminals used taxpayer-specific data acquired from non-IRS sources to gain unauthorized access to information on over 100,000 tax accounts through IRS's "Get Transcript" application. As a result of TIGTA's investigative findings, in August 2015, 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. Before trying to access the IRS site, the criminals gained sufficient information from an outside source to clear a multi-step authentication process, including several personal verification questions that typically are only known by the taxpayer. Additionally, TIGTA's review found that the IRS continues to make errors when resolving the tax accounts of identity theft victims. TIGTA estimated that 10 percent of the 267,692 taxpayers whose accounts were resolved may have been resolved incorrectly, resulting in the delay of refunds or the identity theft victims' receiving incorrect refund amounts.
- ***International Tax Compliance*** – The tax compliance of business and individual taxpayers involved in international transactions remains a significant area of concern for the IRS. As the number and complexity of international transactions continues to grow, the IRS must focus its international efforts on ensuring compliance with the tax laws, regardless of where the taxpayers reside. The enactment of FATCA to combat tax evasion by U.S. persons holding investments in offshore accounts is an important development in the IRS's efforts to improve U.S. tax compliance involving foreign financial assets and offshore accounts.

In addition to the areas addressed above, TIGTA's reports for FY 2015 addressed issues that included:

- ***Education Credits*** – The IRS still does not have effective processes to identify erroneous claims for education credits. Erroneous claims include claims for individuals who did not appear to have attended a postsecondary educational institution, individuals who did not attend an eligible educational institution, individuals who did not appear to attend the educational institute for the required length of time, and individuals who claimed the credit

for more than the four tax years allowed by law. Based on the audit, more than \$11 billion of increased revenue/revenue protected and more than \$9.1 billion in cost savings could potentially be achieved.

- **General Business Credits – Carryforward** – TIGTA identified 3,285 corporate income tax returns electronically filed in CY 2013, on which corporations claimed potentially erroneous carryforward credits totaling more than \$2.7 billion. TIGTA also found that a programming error prevented more than \$170 million in Empowerment Zone Employment Credits claimed on 717 returns from being received by the corporate taxpayers.
- **Fresh Start Initiatives** – Under the Fresh Start Initiatives, taxpayers struggling to pay their outstanding tax obligations signed direct debit installment agreements and the IRS withdrew their Notices of Federal Tax Lien (NFTL). However, 524 taxpayers, who owed approximately \$10.5 million, defaulted on their installment agreements, and the IRS did not file new NFTLs.

Description of Performance:

TIGTA uses two performance measures to gauge the success of the audit program. The first measure indicates that TIGTA's products are more likely to be used if they are delivered when needed to support congressional and IRS decision making. To determine whether products are timely, TIGTA tracks the percentage of products that are delivered on or before the date promised (contract date).

The second measure assesses TIGTA's effect on improving the IRS's accountability, operations, and services. TIGTA makes recommendations designed to improve the administration of the federal tax system. The IRS must implement these recommendations to realize the financial or non-financial benefits. Since the IRS needs time to act on recommendations, TIGTA uses the Department of the Treasury's Joint Audit Management Enterprise System to track the percentage of four-year-old recommendations that have been implemented, rather than the results of the activities during the fiscal year in which the recommendations are made. TIGTA tracks recommendations that have not been implemented by the IRS and has a formal process with the IRS to close out unimplemented recommendations in situations in which circumstances may have changed or when the IRS has taken alternative corrective measures to address TIGTA's audit findings.

In FY 2015, the actual Percentage of Audit Products Delivered when Promised to Stakeholders was 80 percent, against a full-year target of 68 percent.

In FY 2015, the actual Percentage of Recommendations Made that Have Been Implemented was 92 percent, against a full-year target of 85 percent. TIGTA exceeded its target because of continued discussions with the IRS throughout the audit process concerning both the findings and potential recommended solutions to ensure that feasible alternatives were identified. For FY 2017, the target for Percentage of Audit Products Delivered when Promised to Stakeholders will remain 68 percent. The target for Percentage of Recommendations Made that Have Been Implemented will also remain at 85 percent.

3.1.1 – Audit Budget and Performance Plan

Dollars in Thousands

Resource Level	Audit Budget Activity							
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Actual	Actual	Actual	Enacted	Request
Appropriated Resources	\$57,421	\$57,306	\$57,306	\$54,309	\$53,763	\$57,463	\$65,100	\$66,020
Reimbursable Resources	\$529	\$351	\$0	\$500	\$600	\$382	\$600	\$600
Budget Activity Total	\$57,950	\$57,657	\$57,306	\$54,809	\$54,363	\$57,845	\$65,700	\$66,620

Measure	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Percentage of Audit Products Delivered when Promised to Stakeholders	76.0	68.0	71.0	84.0	65.0	80.0	68.0	68.0	68.0
Percentage of Recommendations Made that Have Been Implemented	95.0	93.0	94.0	87.0	89.0	92.0	85.0	85.0	85.0

3B – Investigations

(\$103,614,000 from direct appropriations, and \$900,000 from reimbursable resources):

While most Offices of Inspectors General focus primarily on waste, fraud, and abuse, TIGTA’s mission is more extensive. In addition to protecting the IRS’s ability to collect the majority of the revenue for the federal government’s operations, TIGTA also has the statutory responsibility of protecting the integrity of tax administration while protecting the IRS’s most valuable resource, its employees.

TIGTA’s investigative resources are allocated based upon a performance model that focuses on three primary areas of investigation:

- Employee integrity;
- Employee and infrastructure security; and
- External attempts to corrupt tax administration.

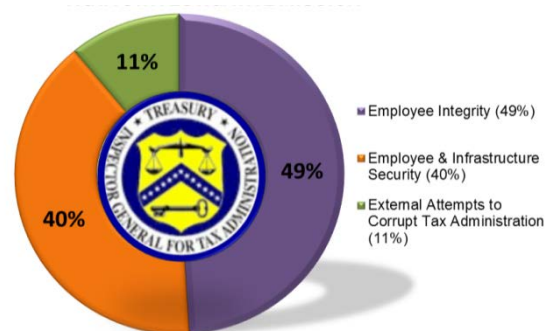


Figure 5: Investigative Performance Model

The performance model (Figure 5) results in reliable statistical data used to make mission-critical decisions regarding staffing, budgeting, and training. The performance model uses a ratio of those investigations that have the greatest impact on IRS operations or the protection of federal tax administration to the total number of investigations conducted. These performance measures guide OI’s activities and help to demonstrate the value of investigative accomplishments to external stakeholders.

Employee Integrity: IRS employee misconduct, real or perceived, erodes public trust and impedes 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, unauthorized access, and disclosure of tax return information. In FY 2015, 49 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 efforts convey 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 serious misconduct in the administration of IRS programs. In FY 2015, TIGTA initiated 37 proactive investigative initiatives to detect systemic weaknesses or potential IRS program vulnerabilities. A recent investigative focus identified seasonal IRS employees who continued to receive unemployment benefits after being recalled to work from furlough status by the IRS. This investigation resulted in numerous arrests, prosecutions, and terminations of IRS employees for fraud.

TIGTA received 12,080 complaints, opened 2,726 investigations, and closed 2,797 investigations in FY 2015. During this period, TIGTA referred for IRS action 1,185 cases of employee misconduct and accepted 146 cases of all types of investigations for criminal prosecution. As a result of a TIGTA investigation into employee misconduct, a former IRS employee was sentenced to 24 months in prison⁶ for her role in an identity theft scheme.⁷ In another case, a Fresno, California, IRS employee was arrested⁸ after being indicted for filing fraudulent tax returns.⁹ The 20-year employee prepared and filed numerous fraudulent federal income tax returns for herself, her family members, and others, defrauding the United States of approximately \$37,387.¹⁰

Employee and Infrastructure Security: In FY 2015, TIGTA responded to 1,936 threat-related incidents. Tax revenue is critical to our Nation's infrastructure. Threats and assaults directed at IRS employees, facilities, data, and computer systems impede the effective administration of the federal tax system. TIGTA has a statutory responsibility to identify, investigate, and respond to threats against IRS personnel and physical infrastructure (Figure 6).

TIGTA's authority to investigate threats and assaults is derived from the provisions of Title 26 U.S.C. § 7608(b), authority of internal revenue enforcement officers; RRA 98; the Inspector General Act of 1978, as amended, and the Inspector General Reform Act of 2008; and is summarized in Treasury Order 115-01. All reports of threats, assaults, and forcible interference against IRS employees performing their official duties are referred to OI. TIGTA has the necessary authority to access taxpayer information in support of ongoing investigations, including tax matters related to threats and assaults involving the IRS.

⁶ W.D. Mo. Judgment filed Nov. 13, 2014.

⁷ W.D. Mo. Indict. filed Mar. 19, 2014.

⁸ E.D. Cal. Executed Arrest Warrant filed Feb. 27, 2015.

⁹ E.D. Cal. Indict. filed Feb. 26, 2015.

¹⁰ *Id.*

To ensure IRS employee safety, OI undertakes investigative initiatives to identify individuals who could commit violence against IRS employees, or who could otherwise pose a threat to IRS employees, facilities, or infrastructure. OI provides crucial intelligence to IRS officials to assist them in making proactive operational decisions about potential violence or other activities that could pose a threat to IRS systems, operations, and people.

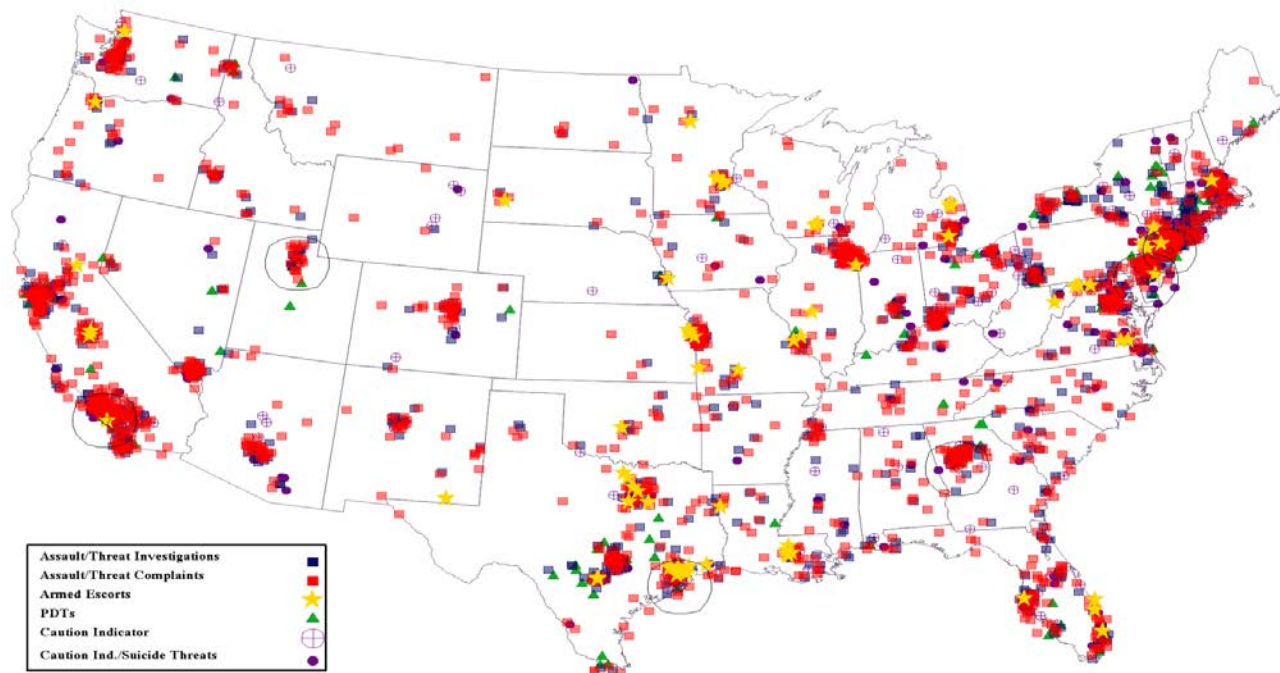


Figure 6: Investigative Activities (Assaults and Threats) in FY 2015

Over the past several years, the United States has experienced numerous violent incidents in schools, private offices, and public areas. These tragic events are unpredictable and result in numerous innocent people losing their lives or being severely injured. TIGTA has processed over 12,176 threat-related complaints and investigated over 5,971 threats against IRS employees from FY 2011 through FY 2015.

TIGTA takes threats directed at the IRS and its employees very seriously. In October 2014, a Rhode Island man was sentenced to 12 months and a day in prison, plus three years of supervised probation and 300 hours of community service for threatening the life of an IRS employee and the employee's family members.¹¹ The threatening statements were made with the intent to impede the official duties of, and to retaliate against, the employee.¹² In another case, a Utah man was sentenced to 24 months imprisonment and three years of supervised release for the illegal possession of a machine gun.¹³ An investigation was initiated after the individual made statements about bombing the IRS office, the police department, and a court building. The man

¹¹ D. R.I. Judg. filed Oct. 7, 2014.

¹² D. R.I. Indict. filed Jan. 15, 2014.

¹³ D. Utah Judg. filed Oct. 31, 2014.

subsequently delivered a fully automatic firearm with an obliterated serial number to a Federal Bureau of Investigation undercover employee.¹⁴

TIGTA's partnership with the IRS's Office of Employee Protection (OEP) to identify Potentially Dangerous Taxpayers (PDTs) is one example of TIGTA's commitment to collaborate with the IRS and protect IRS employees. If a taxpayer has been designated as potentially dangerous, TIGTA conducts a follow-up assessment of the taxpayer after five years and provides the IRS's OEP with information to determine if the taxpayer still poses a danger to IRS employees. TIGTA's special agents are responsible for providing physical security, known as "armed escorts," to IRS employees in dangerous situations. TIGTA's special agents escort IRS employees when they require personal contact with a PDT. These armed escorts provide a safe environment for IRS employees to conduct tax administration activities.

External Attempts to Corrupt Tax Administration: TIGTA is statutorily mandated to investigate external attempts to corrupt tax administration, which include criminal misconduct by nonemployees, such as attempted bribery of IRS employees and impersonation of the IRS. Many IRS employees are in direct contact with taxpayers and often encounter situations where a taxpayer may challenge the employees' integrity by offering a bribe. Bribery, or attempted bribery, of a public official is a criminal offense and is considered an attack on the integrity of the entire IRS organization and the Nation's system of tax administration. TIGTA is currently investigating nationwide IRS impersonation schemes in which criminals are pretending to be employees of the IRS and are attempting to collect phantom tax liabilities from innocent taxpayers. Since the scam was first reported in the summer of 2013, the TIGTA Hotline has received more than 896,000 related contacts, and it is estimated that the scheme has resulted in more than \$26.5 million in payments made by more than 5,000 victims as of December 2015.

OI is conducting an in-depth forensic review of taxpayer accounts for the May 2015 IRS reported data breach, in which criminals used taxpayer-specific data acquired from non-IRS sources to successfully gain unauthorized access to tax accounts through IRS's "Get Transcript" application. The investigation will identify the vulnerabilities that allowed the accounts to be stolen and generate the evidence necessary to bring the responsible individuals to justice.

With adequate FY 2017 resources, TIGTA will have the necessary staffing to ensure these criminal acts are promptly investigated. Another key aspect of protecting the integrity of tax administration in today's environment is the oversight and investigation of IRS procurement. On average, the IRS awards approximately 9,500 contracts each year, worth approximately \$2.1 billion. A 2014 Association of Certified Fraud Examiners report¹⁵ estimated that five percent of an organization's revenue is at risk of fraud on an annual basis. In the case of the IRS, this projection translates to approximately \$105 million annually.

TIGTA focuses its contract fraud investigations on administrative, civil, and criminal violations. TIGTA's contract fraud investigations add to the Nation's treasury through court-ordered settlements and recoveries. With adequate FY 2017 resources, TIGTA could proactively identify

¹⁴ D. Utah Compl. filed July 9, 2013.

¹⁵ Association of Certified Fraud Examiners, *Report to the Nations on Occupational Fraud and Abuse*, 2014.

and address procurement fraud risks in IRS programs to help ensure that the IRS and taxpayers receive full value for the billions of contracting dollars spent.

Description of Performance:

TIGTA’s investigative performance model is a ratio of those investigations that have the greatest impact on IRS operations or the protection of federal tax administration to the total number of investigations conducted. These performance measures guide OI’s activities and help to demonstrate the value of investigative accomplishments to external stakeholders. The performance model provides reliable statistical data, which are used to make mission-critical decisions regarding investigative staffing, budgeting, and training.

The FY 2015 Percentage of Results from Investigative Activities was 93 percent, 14 percent above the target of 79 percent. This increase in investigative activities was due primarily to the finalization of a large number of cases opened in prior years that were accepted for prosecution. With the FY 2017 budget request, TIGTA plans to develop new special agents’ skills and abilities through training and mentoring programs designed to maintain a high level of performance. The FY 2017 budget request will provide funding for TIGTA to enhance its performance of investigative activities and support maintaining the performance goal of 81 percent for FY 2017.

3.1.2 – Investigations Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity									
Resource Level	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	
	Actual	Actual	Actual	Actual	Actual	Actual	Enacted	Request	
Appropriated Resources	\$94,579	\$94,694	\$94,390	\$89,452	\$95,748	\$101,476	\$102,175	\$103,614	
Reimbursable Resources	(\$442)	\$949	\$0	\$400	\$1,100	\$429	\$900	\$900	
Budget Activity Total	\$94,137	\$95,643	\$94,390	\$89,852	\$96,848	\$101,905	\$103,075	\$104,514	

Measure	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Percentage of Results from Investigative Activities	86.0	82.0	89.0	90.0	92.0	93.0	79.0	81.0	81.0

Section 4 – Supplemental Information

4A – Summary of Investments

Technology Investments - TIGTA has no major IT investments based on criteria of the OMB and the Department of the Treasury. Several non-major investments, however, directly support the mission, strategy, and day-to-day operations of the bureau including:

- **IT Applications and Collaboration** - This investment represents an enterprise view of TIGTA's applications development responsible system design, development, testing, deployment and maintaining information applications systems (i.e., CRIMES, formerly known as PARIS).
- **IT Infrastructure End User Systems and Support** - This investment is an enterprise view of TIGTA's end user hardware (desktop, laptop, handheld devices), peripherals (local and shared printers) and software (operating systems, office automation suites, messaging and groupware), and help desk.
- **IT Infrastructure Mainframe and Servers Services and Support** - This investment represents an enterprise view of TIGTA's servers, including hardware and software operations, licensing, maintenance, back-up, continuity of operations, disaster recovery, virtualization and data center consolidation.
- **IT Infrastructure Telecommunications** - This investment represents an enterprise view of TIGTA's data networks and telecommunications hardware and software operations, licenses, maintenance, back-up, continuity of operations, and disaster recovery.
- **IT Security Systems & Enterprise Architecture** - This investment represents an enterprise view of TIGTA's IT investments related to cyber security systems related to TIGTA's electronic systems in accordance with the Federal Information Security Management Act, and enterprise architecture services.

Law Enforcement Vehicles - Effective FY 2014, TIGTA acquires its vehicles by lease through the General Services Administration. However, TIGTA will maintain ownership of approximately 10 surveillance/communications vehicles. These vehicles will remain part of TIGTA's capital asset strategy. The vehicles will be used to support TIGTA's investigations and must meet the mission-critical need to conduct criminal law enforcement activities. TIGTA communications vehicles also are used in support of its Continuity of Operations (COOP) Plan. COOP provides a mechanism for the organization to recover full operational capability following a critical incident, including the capability to communicate during a local or national emergency.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed and downloaded at:

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>

This website also contains a digital copy of this document.