

Department of the Treasury
Treasury Inspector General for
Tax Administration

Congressional Budget
Justification and Annual
Performance Report and Plan

FY 2019

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Section I – Budget Request

A – 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.

B – Summary of the Request

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 (CR) amount. Funding TIGTA’s FY 2019 budget request will enable TIGTA to attempt to address its expansive workload of emerging Internal Revenue Service (IRS) challenges and congressional requests while conducting its oversight responsibilities. 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),¹ TIGTA submits the following information related to its FY 2019 budget request:

- The aggregate budget request for TIGTA operations is \$161,113,000;
- 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 \$338,000.

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

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

For more on how TIGTA aligns to the Department of the Treasury goals and objectives see Section II in this document.

TIGTA’s Strategic Goals:

- Promote the economy, efficiency, and effectiveness of tax administration;
- Protect the integrity of tax administration; and
- Be an organization that values its people.

TIGTA’s work is focused on all aspects of activity related to the Federal tax system as administered by the IRS. TIGTA identifies and addresses IRS management challenges and the priorities of the Department of the Treasury. TIGTA protects the public’s confidence in the tax system.

¹ 5 U.S.C. app. 3 § 6(f)(1).

1.1 – Appropriations Detail Table

Dollars in Thousands

Treasury Inspector General for Tax Administration										
Appropriated Resources	FY 2017*		FY 2018		FY 2019		FY 2018 to FY 2019			
	Enacted		Annualized CR		Request		Change		% Change	
New Appropriated Resources	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Audit	333	\$66,020	333	\$65,572	333	\$62,704	0	(\$2,868)	0.00%	-4.37%
Investigations	467	\$103,614	467	\$102,910	467	\$98,409	0	(\$4,501)	0.00%	-4.37%
Subtotal New Appropriated Resource	800	\$169,634	800	\$168,482	800	\$161,113	0	(\$7,369)	0.00%	-4.37%
Other Resources										
Reimbursables	2	\$357	2	\$600	2	\$600	0	\$0	0.00%	0.00%
Unobligated Balances Brought Forward		\$3,916		\$4,300		\$5,000		\$700		16.28%
Subtotal Other Resources	2	\$4,273	2	\$4,900	2	\$5,600	0	\$700	0.00%	14.29%
Total Budgetary Resources	802	\$173,907	802	\$173,382	802	\$166,713	0	(\$6,669)	0.00%	-3.85%

*The FY 2017 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.

1.2 – Budget Adjustments Table

Dollars in Thousands

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

C – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$1,233,000 / +0 FTE

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

Funds are requested 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 -\$8,602,000 / +0 FTE

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.

1.3 – Operating Levels Table

Dollars in Thousands

Treasury Inspector General for Tax Administration	FY 2017*	FY 2018	FY 2019
Object Classification	Enacted	Annualized CR	Request
11.1 - Full-time permanent	91,726	86,447	86,851
11.3 - Other than full-time permanent	594	391	393
11.5 - Other personnel compensation	8,460	8,291	8,330
11.9 - Personnel Compensation (Total)	100,780	95,129	95,574
12.0 - Personnel benefits	35,409	37,477	37,652
Total Personnel and Compensation Benefits	\$136,189	\$132,606	\$133,226
21.0 - Travel and transportation of persons	3,581	3,794	2,261
22.0 - Transportation of things	19	15	13
23.1 - Rental payments to GSA	9,396	9,600	8,984
23.2 - Rental payments to others	233	200	170
23.3 - Communications, utilities, and miscellaneous charges	1,864	740	340
24.0 - Printing and reproduction	7	8	6
25.1 - Advisory and assistance services	805	1,800	1,529
25.2 - Other services from non-Federal sources	721	1,000	849
25.3 - Other goods and services from Federal sources	8,357	11,150	8,597
25.4 - Operation and maintenance of facilities	424	16	13
25.7 - Operation and maintenance of equipment	944	2,989	1,469
26.0 - Supplies and materials	1,072	640	595
31.0 - Equipment	5,943	3,800	2,972
42.0 - Insurance claims and indemnities	53	5	4
91.0 - Unvouchered	26	119	85
Total Non-Personnel	\$33,445	\$35,876	\$27,887
New Budgetary Resources	\$169,634	\$168,482	\$161,113
FTE	800	800	800

*The FY 2017 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.

D – 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 <i>Federal funds</i></p> <p style="text-align: center;">SALARIES AND EXPENSES</p> <p><i>For necessary expenses of the Treasury Inspector General for Tax Administration in carrying out the Inspector General Act of 1978, as amended, including purchase 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; \$161,113,000, of which \$5,000,000 shall remain available until September 30, 2020; 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.</i></p> <p>Note.—A full-year 2018 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115–56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.</p>	

E – Legislative Proposals

TIGTA has no legislative proposals.

Section II – Annual Performance Plan and Report

A – Strategic Alignment

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).² It provides independent oversight of IRS activities by conducting independent audits, investigations, and inspections and evaluations necessary to prevent and detect waste, fraud, and abuse in IRS programs and operations. TIGTA conducts audits of the IRS's operations and 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 taxpayer data. TIGTA also has the unique responsibility of protecting the IRS and its employees. 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.

TIGTA's budget activities align with its vision and goals and with Treasury's Strategic Plan for FY 2018-2022, including various objectives under the following goals:

Goal 1: Boost U.S. Economic Growth

Objective 1.1 – Tax Law Implementation: Administer tax law to better enable all taxpayers to meet their obligations, while protecting the integrity of the tax system.

TIGTA conducts comprehensive audits, inspections, and evaluations of the IRS, provides recommendations for achieving monetary benefits, and addresses erroneous and improper payments. It oversees the IRS's efforts to increase domestic and international tax compliance, and to achieve program efficiencies and cost savings. TIGTA conducts audits that assess the IRS's timeliness and effectiveness in implementing tax law changes, and the IRS's effectiveness in protecting taxpayer data and addressing fraud, such as tax related identity theft. TIGTA conducts administrative and criminal investigations of allegations of waste, fraud, and abuse; makes recommendations designed to improve the administration of the Federal tax system; and helps to ensure that the IRS protects and secures taxpayer data.

Goal 4: Transform Government-wide Financial Stewardship

Objective 4.1 – Financial Data Access/Use: Increase the access and use of Federal financial data to strengthen Government-wide decision-making, transparency, and accountability.

TIGTA supports the Department of the Treasury's Digital Accountability and Transparency Act efforts by implementing the related policies and requirements. Many of TIGTA's audits include recommendations that, when implemented, would result in cost savings, increased or protected revenue, or more efficient use of resources. Additionally, TIGTA develops advanced analytics and innovative approaches to help prevent and detect the flow of dollars fraudulently obtained by criminals and IRS employees and provides the IRS with the investigative coverage and

² Pub. L. No. 105-206, 112 Stat. 685.

information necessary to mitigate domestic and foreign threats against its employees, facilities, and data systems.

Goal 5: Achieve Operational Excellence

Objective 5.1 – 5.3 Workforce Management, Treasury Infrastructure, and Customer Value.

TIGTA hires and develops a workforce with the skills and competencies necessary to accomplish its mission to provide quality professional audit, investigative, and inspection and evaluation services related to the administration of the Nation’s tax system. TIGTA mitigates security risks affecting taxpayer data, tax systems, and IRS employees. It effectively improves customer value by protecting the IRS and its employees and responding to attempts to impersonate the IRS for fraudulent purposes. TIGTA prioritizes acquisition and application of human and financial resources to enhance its ability to detect and protect against cyberattacks. Additionally, TIGTA collaborates with the IRS to share intelligence and expertise to thwart cyber threats.

With the publication of the Treasury Strategic Plan for FY 2018-2022, TIGTA will work this year to baseline its performance against the new strategic objectives. This could result in (additional) changes to performance measures in the FY 2020 budget.

B – Budget and Performance by Budget Activity

2.1.1 – Audit Resources and Measures

Dollars in Thousands

Resource Level	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Annualized CR	FY 2019 Request
Appropriated Resources	\$54,309	\$53,763	\$57,463	\$59,752	\$64,240	\$65,572	\$62,704
Reimbursable Resources	\$500	\$600	\$382	\$60	0	0	0
Unobligated Balances Brought Forward	0	0	\$1,808	\$1,780	\$1,524	\$1,674	\$1,947
Budget Activity Total	\$54,809	\$54,363	\$59,653	\$61,592	\$65,764	\$67,246	\$64,651
FTE	323	309	316	329	333	333	333

Note: FY 2017 Reimbursable Resources and Unobligated Balances Brought Forward are Actuals

Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2017 Target	FY 2018 Target	FY 2019 Target
Percentage of Audit Products Delivered When Promised to Stakeholders	84	65	80	75	79	68	68	68
Percentage of Recommendations Made That Have Been Implemented	87	89	92	97	92	85	85	85

Audit Budget and Performance

(\$62,704,000 from direct appropriations):

TIGTA’s Office of Audit 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 on 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 of the Nation's system of tax administration. In FY 2017, OA issued 104 final audit reports, and other products, that included potential financial benefits totaling approximately \$9.1 billion and affected approximately 34 million taxpayer accounts. TIGTA's Annual Audit Plan communicates its 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 identity-theft detection and prevention, security of taxpayer data, tax compliance, tax law changes, fraudulent claims and improper payments, tax systems and online services, 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.

By focusing on the most critical areas, 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.

TIGTA's reports for FY 2017 addressed issues that included:

- **Improving Tax Compliance – Potential Employer Underreported Tax Not Being Addressed.** TIGTA noted 114,088 (83 percent) Tax Year 2013 discrepancy cases were not worked. These cases had a potential underreported tax difference of more than \$7 billion.
- **Improving Tax Compliance – Significant Reduction in Automated Substitute for Return Program Negatively Affected Compliance and Collection.** The Automated Substitute for Return Program (ASRP) attempts to bring taxpayers who are required to file a tax return but do not into compliance. Revising the ASRP case selection strategy to include more potential high net-tax due cases could result in the collection of \$843 million of additional taxes over the next five years.
- **Achieving Program Efficiencies and Cost Savings – Replacement of Aged Hardware Infrastructure.** From FY 2013 to FY 2017, the IRS's aged information technology hardware increased from 40 percent to 64 percent. The IRS's stated objective is an acceptable level of 20 to 25 percent. Aged information technology hardware still in use introduces unnecessary risks. Aged hardware failures may have a negative effect on IRS employee productivity, security of taxpayer information, and customer service.
- **Reducing Fraudulent Claims and Improper Payments – Identify Potentially Improper Refundable Credit Claims.** Effective December 18, 2015, taxpayers must have a Taxpayer Identification Number (TIN) that was issued before the due date of the tax return to claim certain tax credits. However, the IRS does not have processes to identify claims where a TIN was not issued timely. As a result, the IRS paid more than \$34.8 million in refundable tax credits to taxpayers whose TIN was not issued until after the tax period in question. In addition, the IRS still has not established processes to prevent individuals who have a non-work Social Security Number from receiving the Earned Income Tax Credit (EITC). As a result, 49,310 individuals not authorized to work in the United States received almost \$117.7 million in potentially erroneous EITCs in Tax Year 2014.

Description of Performance:

TIGTA uses two performance measures to gauge the success of its 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.

At the end of FY 2017, the actual Percentage of Audit Products Delivered When Promised to Stakeholders was 79 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 delivery of audit products to stakeholders. At the end of FY 2017, the actual Percentage of Recommendations Made That Have Been Implemented was 92 percent, which exceeded the 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 2019, 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 remain at 85 percent. TIGTA believes that these measures are best attained through effective monitoring of ongoing audit work and essential communication with the IRS regarding findings and the most appropriate corrective action recommendations. As such, TIGTA's OA will continue to accentuate the importance of these processes with the management cadre and staff.

2.1.2 – Investigations Resources and Measures

Dollars in Thousands

Resource Level	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017* Actual	FY 2018 Annualized CR	FY 2019 Request
Appropriated Resources	\$89,452	\$95,748	\$101,476	\$108,106	\$100,819	\$102,910	\$98,409
Reimbursable Resources	\$400	\$1,100	\$429	\$475	\$357	\$600	\$600
Unobligated Balances Brought Forward	0	0	\$3,192	\$3,220	\$2,392	\$2,626	\$3,053
Budget Activity Total	\$89,852	\$96,848	\$105,097	\$111,801	\$103,568	\$106,136	\$102,062
FTE	451	433	442	460	469	469	469

* The FY 2017 column 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.

Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2017 Target	FY 2018 Target	FY 2019 Target
Percentage of Results From Investigative Activities	90	92	93	90	90	81	79	79

Investigations Budget and Performance

(\$98,409,000 from direct appropriations, and \$600,000 from reimbursable resources):

In addition to protecting the IRS’s ability to collect the majority of the revenue for the Federal Government’s operations, TIGTA, through its Office of Investigations, has the statutory responsibility of protecting the integrity of tax administration, as well as 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

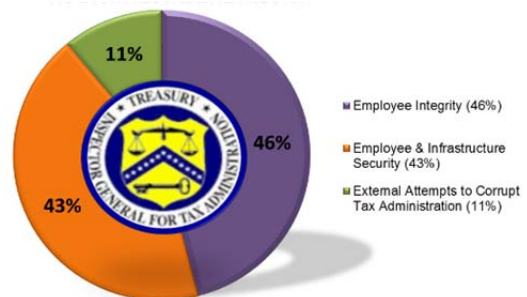


Figure 1: Investigative Performance Model

The performance model (Figure 1) 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 TIGTA’s external stakeholders.

Employee Integrity: IRS employee misconduct, real or perceived, erodes public trust and impedes the IRS’s ability to enforce tax laws effectively. In FY 2017, 46 percent of TIGTA’s body of investigative work involved alleged employee misconduct. TIGTA’s investigative results convey a message to IRS employees that these types of activities will not go unchecked. TIGTA processed 10,638 complaints, opened 2,835 investigations, and closed 2,876 investigations in FY 2017. During this period, 168 investigations cases of all types were accepted for criminal prosecution, and TIGTA referred for IRS action 1,119 cases of employee misconduct. As a result of one of TIGTA’s investigations into employee misconduct, a former

IRS special agent was charged with corrupt interference with the IRS, filing false tax returns, theft of Government funds, and destruction or falsification of records.³ In another case, two IRS employees, pled guilty to their roles in the preparation and filing of fraudulent income tax returns, resulting in a total tax loss to the IRS of \$130,124.⁴

Employee and Infrastructure Security: In FY 2017, TIGTA responded to 1,642 threat-related incidents. TIGTA has a statutory responsibility to identify, investigate, and respond to threats against IRS personnel and physical infrastructure. TIGTA also believes that through its investigations of threat-related incidents, it is creating a safe and secure environment for taxpayers who need to conduct business with the IRS. From FY 2011 through FY 2017, TIGTA has processed more than 15,737 threat-related complaints and investigated more than 8,194 threats against IRS employees. In one investigation, a man who had previously mailed his severed finger to the IRS,⁵ was arrested and indicted for knowingly sending a fake pipe bomb to the IRS.⁶

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 impersonation of the IRS, attempted bribery of IRS employees, international cybercrime and identity theft, and procurement fraud.

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 September 30, 2017, more than 2.1 million Americans reported that they have received one of these calls, and 12,027 victims have reported that they have collectively paid a total of more than \$60.7 million to the scammers. As a direct result of TIGTA's investigative efforts, in October 2016, 56 individuals, some of whom were located within the United States, plus five call centers located in India were indicted for the scam. Since the indictment, the impersonation calls have dropped by more than 90 percent.

International Cybercrime and Identity Theft: 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. The Office of Investigation'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.

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 Identity

³ E.D. Cal. Superseding Indict. filed Oct. 20, 2016.

⁴ E.D. Cal. Plea Agr. filed July 26, 2017; E.D. Cal. Plea Agr. filed Aug. 25, 2017.

⁵ W.D. Wash. Crim. Compl. filed July 7, 2017.

⁶ W.D. Wash. Crim. Docket filed Sep. 6, 2017; W.D. Wash. Indict. filed Sep. 6, 2017.

Protection Personal Identification Number 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 dollars 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. As a result of one of TIGTA's cybercrime investigations, a Russian man was sentenced to 57 months' imprisonment⁷ for his role in a sophisticated, large-scale stolen-identity refund fraud scheme.⁸

Procurement Fraud: On average, the IRS acquires approximately \$2.1 billion annually in new contract awards. According to the Association of Certified Fraud Examiners' 2016 "Report to the Nation,"⁹ organizations lose more than 5 percent of their annual expenditures to fraud, waste, and abuse. In the case of IRS procurement, this projection translates to approximately \$105 million annually.

Description of Performance:

TIGTA's OI has adopted performance measures that identify the percentage of results derived from investigative activities that most accurately align with the strategic goals of the organization and provide the greatest impact on the protection of the integrity of Federal tax administration. At the end of FY 2017, the Percentage of Results From Investigative Activities was 90 percent, which exceeded the full-year target of 81 percent. The Office of Investigations exceeded the FY 2017 performance measure as a result of the hard work of experienced executives, managers, and special agents. With the FY 2019 budget request, TIGTA will attempt to maintain its special agents' skills and abilities in order to be able to respond to its mission requirements.

For FY 2019, OI's performance target is 79 Percent of Results From Investigative Activities. TIGTA is anticipating a high rate of turnover of its management team due to retirements. In addition, based on fiscal resources, TIGTA is anticipating the inability to backfill special agent positions. As experienced special agents retire or transfer from the agency, it is anticipated that TIGTA's ability to effectively produce results will decrease in FY 2019. However, TIGTA's OI will continue to provide the IRS with the investigative coverage and information necessary to improve the integrity of IRS operations and mitigate threats against its employees, facilities, and data systems. Through its investigative programs, OI will continue to protect the IRS's ability to process approximately 246 million tax returns, collect more than \$3.4 trillion in annual revenue, and issue over \$400 billion dollars in refunds for the Federal Government.¹⁰

⁷ S.D. Fla. Judgment filed June 12, 2017.

⁸ S.D. Fla. Crim. Compl. filed Nov. 17, 2016.

⁹ Association of Certified Fraud Examiners, *Report to the Nations on Occupational Fraud and Abuse*, 2016.

¹⁰ IRS, *Management's Discussion & Analysis, Fiscal Year 2017*.

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 2017, through targeted and vigorous oversight efforts that addressed congressional concerns and its own audit and investigative priorities, TIGTA generated overall potential financial accomplishments of over \$9.1 billion.

During FY 2017, these potential financial accomplishments included:

- Increased and/or protected revenue in the amount of \$8.6 billion;
- Cost savings of \$439.1 million; and
- Significant investigative accomplishments of \$38.1 million.

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 are 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 over \$31.8 million in court-ordered fines, penalties, and restitution.

Funding for TIGTA allows its oversight efforts to continue, and for each dollar invested over the five-year period covering FYs 2013-2017, TIGTA has produced an average annual return of \$106 (Figure 2).



Figure 2: TIGTA’s Return on Investment

Office of Inspections and Evaluations Highlights

The Office of Inspections and Evaluations (I&E) identifies opportunities for improvement in IRS and TIGTA programs by performing inspections and evaluations that report timely, useful, and reliable information to decision makers and stakeholders.

The Office of Inspections and Evaluations 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. These activities provide TIGTA with additional flexibility, capacity, and capability to improve tax administration. 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 2017, I&E produced nine external reports, which include reviews of physical security controls at IRS locations, the IRS Occupational Safety and Health Program, the use of critical pay authority to hire employees, and employment tax evasion.

Section III – Additional Information

A – Summary of Capital Investments

Technology Investments – TIGTA has no major IT investments; however, non-major investments include:

- **IT Applications and Collaboration** – This investment represents an enterprise view of TIGTA's applications development which includes system design, development, testing, deployment, and maintenance of information applications systems.
- **IT Infrastructure End-User Systems and Support** – This investment is an enterprise view of TIGTA's end-user hardware, peripherals and software, and the Service 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 and Enterprise Architecture** – This investment represents TIGTA's IT investments responsible for enterprise architecture services.

The Office of Information Technology provides cost-effective and timely IT products and services that permit successful completion of TIGTA's business goals, while at the same time meeting legislative and other executive mandates. The following are TIGTA's FY 2019 prioritized information technology requirements that directly support TIGTA operations:

- **Continuous Diagnostics and Mitigation (CDM)** – The CDM program is intended to provide TIGTA with the capabilities and tools to identify cybersecurity risks on a repeatable and recurrent basis, prioritize these risks based upon their potential impact, and enable cybersecurity and operational personnel the opportunity to timely address the most significant problems.
- **Infrastructure Refresh in Atlanta Service Center (ATSC)** – TIGTA's major infrastructure equipment located at the ATSC is eligible for refresh in FY 2019. The refresh will enable TIGTA to operate more efficiently and maintain and improve TIGTA's security posture. New storage technologies (*e.g.*, Solid-State Drives) will offer TIGTA opportunities for greater efficiency and enhancements in capacity, confidentiality, cybersecurity, power savings, system availability/responsiveness, and improved productivity.
- **Increased Bandwidth** – The bandwidth for TIGTA's field offices must be upgraded to support the increased demand for improved transmission of data, application utilization, audio and video conferencing, and more.
- **Network Segmentation** – The enhancement of a more secure configuration will ensure that network data and personally identifiable information will be more readily protected against cyberattacks and leaks. The purpose of network segmentation is to increase TIGTA's overall security and performance posture which would prevent sideways and undetected movement by would-be intruders.
- **Research, Analysis, Forensics, and Evidence system (RAFE)** – The RAFE will be used by TIGTA for cyber analysis, tracking, and defense against potential cyber threats directed at both TIGTA and IRS as well as uncovering other threats to tax administration including seizure of evidence and analysis of activities (*e.g.*, scammers). RAFE will directly benefit

TIGTA as it will remove current security and privacy vulnerabilities and open the door to many new cybercrime capabilities that cannot be accommodated currently. The expected initial implementation is underway for FY 2018, and TIGTA expects to continue its full implementation in FY 2019.

Law Enforcement Vehicles –TIGTA acquires its vehicles by lease through the General Services Administration. However, TIGTA will maintain ownership of approximately eight 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 IT 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.