

Treasury Inspector General for
Tax Administration

FY 2014

President's Budget

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Section 1 – Purpose

1A – Mission Statement

Provide integrated audit, investigative, and inspection and evaluation services that promote economy, efficiency, and integrity in the administration of the internal revenue laws.

1.1 – Appropriations Detail Table

Dollars in Thousands

Treasury Inspector General for Tax Administration Resources	FY 2012		FY 2013		FY 2014		FY 2012 to FY 2014			
	Enacted		Annualized		Request		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	349	57,306	349	57,656	349	58,190	0	884	0.00%	1.54%
Investigations	486	94,390	486	94,968	486	91,348	0	(3,042)	0.00%	-3.22%
Subtotal New Appropriated Resources	835	\$151,696	835	\$152,624	835	\$149,538	0	(\$2,158)	0.00%	-1.42%
Other Resources:										
Reimbursables	2	900	2	900	2	1,000	0	100	0.00%	11.11%
Subtotal Other Resources	2	\$900	2	\$900	2	\$1,000	0	\$100	0.00%	11.11%
Total Budgetary Resources	837	\$152,596	837	\$153,524	837	\$150,538	0	(\$2,058)	0.00%	-1.35%

1B – Vision, Priorities and Context

Previously a longstanding oversight office within the Internal Revenue Service (IRS), the Treasury Inspector General for Tax Administration (TIGTA) was created by the Congress as a part of the *Internal Revenue Service Restructuring and Reform Act of 1998* (RRA 98). TIGTA is mandated to provide independent audit, investigative, and inspection and evaluation services necessary to improve the quality and credibility of IRS operations, including oversight of the IRS Chief Counsel and the IRS Oversight Board. TIGTA reviews IRS programs, makes recommendations to improve effectiveness and efficiency, and investigates allegations of fraud, waste, and abuse. TIGTA's Office of Audit (OA) conducts audits that advise the American people, the 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 ensuring fair and equitable treatment of taxpayers. Through criminal and administrative investigations, TIGTA's Office of Investigations (OI) ensures the integrity of IRS employees, contractors, and tax professionals; provides for infrastructure security; and protects the IRS from internal and external attempts to threaten or corrupt the administration of the tax laws. TIGTA's Office of Inspections and Evaluations (I&E) provides responsive, timely, and cost-effective inspections and evaluations of IRS challenge areas. Oversight activities are designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration. TIGTA helps to ensure that the American taxpayer can have confidence that the IRS collects over \$2 trillion in tax revenue in an effective and efficient manner without fraud and abuse.

FY 2014 Priorities

TIGTA's Fiscal Year (FY) 2014 budget request of \$149,538,000 represents a decrease of 1.42 percent below the FY 2012 Enacted budget. These resources will fund critical audit, investigative, and inspection and evaluation services to protect the integrity of tax administration on behalf of the Nation's taxpayers. TIGTA's audit, investigative, and inspection and evaluation priorities include:

- Mitigating risks associated with modernization, security over taxpayer data and employees, procurement fraud, addressing the Tax Gap, implementing major tax law changes, and human capital challenges facing the IRS in domestic and international operations in order to identify opportunities to improve administration of the Nation's tax laws;
- Providing the IRS with the investigative coverage and the information necessary to mitigate threats against its employees, facilities, and systems;
- Responding to domestic and foreign threats and attacks against IRS employees, property, data infrastructure, and sensitive information;
- Improving the integrity of IRS operations by preventing, detecting and deterring fraud, waste, abuse or misconduct by IRS employees;
- Conducting comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits, addressing erroneous and improper payments, and enhancing IRS service to taxpayers;
- Informing the American people, the Congress, and the Secretary of the Treasury of problems; and
- Overseeing the IRS efforts to administer tax provisions of the *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010* (ACA).

Strategic Goals

TIGTA's *Strategic Plan 2009-2014* guides program and budget decisions and supports the Department of the Treasury Strategic Plan which includes a goal to "Manage the Government's Finances in a Fiscally Responsible Manner."

TIGTA's Strategic Plan goals are to:

- 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 commitment to its strategic goal to be an organization that values its people was recognized in the Partnership for Public Service's 2012 Best Places to Work rankings. TIGTA placed 13th out of 292, up from 16th out of 240 in 2011, in the overall index score measuring the performance of agency subcomponents related to employee satisfaction and commitment. TIGTA ranked the highest of all Treasury bureaus. This ranking is based on the Office of Personnel Management's annual Employee Viewpoint Survey, which Federal agencies use as

benchmarks to measure their performance. Survey results provided valuable insight into the challenges agency leaders face in ensuring that TIGTA has an effective civilian workforce and how well they are responding. According to the survey highlights, TIGTA employees continue to be happy with their jobs and feel their work is important. The vast majority believe TIGTA is accomplishing its mission and would recommend it as a good place to work.

Audit

In 2010, the President signed into law significant changes to the Nation's health care system under the ACA (Public Law 111-148). The Internal Revenue Code plays several key functions in achieving that goal. At least 42 provisions added to or amended the Internal Revenue Code, and at least eight required the IRS to build new processes in tax administration. These provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. They also impose penalties, administered through the tax code, for individuals and businesses that do not obtain health coverage for themselves or their employees. Other provisions raise revenue to offset the costs of health care reform. TIGTA plays a key role in ensuring that these provisions are implemented and administered in accordance with the law and the intent of the Congress.

TIGTA's audit results to date illustrate the significant need for continued oversight over many of the tax-related ACA provisions. For example:

- Taxpayers erroneously received millions in Adoption Credits;
- IRS did not require sufficient information to determine if taxpayers claiming Small Business Health Care Tax Credits filed required employment taxes when these taxpayers entered into a contractual relationship with Professional Employment Organizations to manage human resources; and
- IRS did not take adequate steps to ensure taxpayers potentially liable for the indoor tanning excise tax were aware of the new law, particularly after the number of taxpayers filing returns that included the tanning services excise tax was much lower than expected.

TIGTA also found some minor problems related to the IRS updating of publications to reflect ACA provisions, and had concerns with the IRS methods for estimating staffing needs related to implementation of the ACA.

In FY 2013 and FY 2014, several key ACA provisions will become effective, but FY 2014 will be a significant year for the oversight of ACA provisions. Many provisions that previously became effective will require continued oversight to ensure that appropriate corrective actions are taken and to address aspects of the provisions with different implementation dates.

The following areas will require significant TIGTA oversight:

- Security over information sharing and reporting with ACA stakeholders;
- Integration of ACA provisions into existing tax processing systems;
- Development and testing of new systems to support ACA provisions;

- Requirement to maintain minimum essential coverage and reporting of health insurance coverage;
- Additional hospital insurance tax on high-income taxpayers;
- Medicare contribution tax on unearned income;
- Medical device manufacturers' excise tax;
- ACA compliance examinations of tax exempt hospitals;
- Refund controls validation related to tax exempt organizations' claims for refund for the small business health care tax credit;
- Financial management information related to ACA;
- Modification of itemized deduction for medical expenses;
- Refundable tax credits providing premium assistance for certain individuals and families purchasing health insurance through an exchange; and
- Annual fee requirement for health insurance providers.

Investigations

The Office of Investigations is similarly impacted by the demands of the ACA. As the IRS efforts to implement new systems and programs to administer the provisions of the ACA increase, so will TIGTA's efforts to protect the IRS from external attempts to corrupt or impede the administration of internal revenue laws. Substantial changes to the tax code can create new opportunities for crime. To effectively carry out this important oversight work, TIGTA must be better positioned to utilize law enforcement and intelligence resources to proactively detect and deter efforts impacting the IRS implementation of the ACA.

Inspections and Evaluations

The Office of Inspections and Evaluations will also provide oversight of the IRS administration of the ACA and provide TIGTA with additional flexibility, capacity, and capability to produce value-added products and services to improve tax administration. Inspections will usually be more limited in scope and will be completed in a more compressed period than a traditional audit. Evaluations related to the ACA will result in recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective programs. Its work is not a substitute for audits and investigations; in fact, its findings may result in subsequent audits and/or investigations. Inspections and evaluations, by their nature, have a short time horizon and will respond to specific ACA tax administration issues.

Safeguarding the IRS

TIGTA continues to place a priority on ensuring the safety and security of IRS employees and facilities. TIGTA will review, analyze, and respond to intelligence information relating to potential violent acts against IRS employees and facilities and develop proactive leads to investigate and mitigate potential threats. Investigators will also respond to violent acts committed against IRS employees and facilities, initiate investigations into those incidents, and work towards the arrest, conviction and sentencing of the perpetrators. To further enhance their work, the investigators will utilize OI's technical expertise, including TIGTA's Forensic Science

Laboratory, Digital Forensic and Technical Support functions to gather and examine evidence and intelligence.

Providing Comprehensive Coverage and Oversight

TIGTA continues to provide comprehensive coverage and oversight of all aspects of the IRS operations. In FY 2012, TIGTA's overall accomplishments included \$388 million in potential increased and/or protected revenue and \$22.1 billion in potential cost savings.

Ensuring Taxpayer Privacy and Security: Millions of taxpayers entrust the IRS with their most sensitive financial and personal data that are processed by and stored on IRS computer systems. The risk that taxpayers' identities could be stolen by exploiting security weaknesses in the IRS computer systems continues to increase, as does the risk that IRS computer operations could be disrupted. Both internal factors (such as the increased connectivity of computer systems and use of portable devices) and external factors (such as the volatile threat environment resulting from increased terrorist and hacker activity) require strong security controls. In FY 2012, OA issued reports noting that insufficient E-Services control may put taxpayer information at risk and that the Computer Security Incident Response Center (CSIRC) is effectively performing most of its responsibilities, but further improvements were needed.

To prevent the compromise of sensitive taxpayer information, TIGTA proactively identifies IRS employees who inappropriately access and/or disclose such private information. These violations, known as unauthorized access (UNAX), are often the initial phase of IRS employee misconduct and frequently result in the uncovering of other criminal violations, including fraud and identity theft. The importance of efforts to detect unauthorized access 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 loss of their jobs. In FY 2012, TIGTA closed 280 UNAX investigations, resulting in 232 adjudicative personnel actions for IRS employees.

In FY 2009, TIGTA established a UNAX modernization group to address all computer applications the IRS currently uses that contain sensitive information. This group's work to date includes monitoring the IRS efforts to develop and implement an enterprise-wide audit trail solution, providing guidance to the IRS on establishing retention policies so that forensic investigations can be conducted, and ensuring the IRS expands its automated capability to proactively detect unauthorized accesses on all computer systems. During FY 2012, TIGTA investigators completed 1,637 employee integrity investigations, of which 395 involved UNAX allegations. This resulted in 16 criminal prosecutions and 624 referrals for administrative disciplinary actions against IRS employees.

Identity theft occurs when someone uses the Personally Identifiable Information (PII), e.g., name, Social Security Number, or credit card number, of another. TIGTA continues to provide investigative resources to combat identity theft.

In this critical area, TIGTA focuses its resources to:

- IRS employees who are committing identity theft either directly or through active participation in a scheme;
- Tax preparers who improperly steal and disclose client information for the purpose of committing identity theft (excluding tax preparers who prepare and file fraudulent tax returns for the purpose of personally stealing the refund); and
- Individuals who impersonate an IRS employee in furtherance of committing identity theft.

Tax Compliance: Tax compliance initiatives include administering tax regulations, collecting the correct amount of tax from businesses and individuals, and overseeing tax-exempt and Government entities. The IRS recently updated estimate of the gross Tax Gap, which is defined as the amount of true tax liability that taxpayers do not pay on time, is \$450 billion. Increasing compliance with the tax code is at the heart of IRS enforcement programs. The IRS is focusing its enforcement activities to deliver better results and to target those corporations and high income individuals who fail to report or pay what they owe. In FY 2012, OA issued reports noting that: opportunities exist to identify more taxpayers who underreport retirement income; and actions can be taken to reinforce the importance of recognizing and investigating fraud indicators during field audits and a concerted effort should be taken to improve Federal Government agency tax compliance. Enactment of TIGTA's recommendations in these areas can increase compliance.

TIGTA continues its outreach efforts to IRS employees and tax practitioners. By doing so, TIGTA develops relationships with these groups to assist in identifying crimes against the IRS and taxpayers. In FY 2012, TIGTA provided 1,383 presentations to more than 37,911 IRS employees and educated tax professionals by providing 38 awareness presentations to 6,016 tax practitioners and preparers.

Fraudulent Claims and Improper Payments: *The Improper Payments Information Act of 2002* defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (both overpayment and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Erroneous and improper IRS payments generally involve improperly paid refunds, tax return filing fraud, or improper payments to vendors or contractors. In FY 2012, OA issued reports noting that while the IRS disallowed erroneous First-Time Homebuyer Credits totaling \$1.6 billion, its examination resources could have been used more effectively, potentially disallowing more Credits and increasing assessments and that substantial changes were needed to the Individual Taxpayer Identification Number Program to detect fraudulent applications.

Advising the Congress: During FY 2012, TIGTA provided 39 briefings, five testimonies, and eight official responses to the Congress regarding audit, investigative, and inspection and evaluation activities. Through direct communication, TIGTA aims to address the interest of congressional committees on critical issues involving IRS operations.

Fraud and Electronic Crime: The sensitivity of the data the IRS collects makes it an attractive target for employees, hackers, and others residing throughout the world that could use the information for fraud and identity theft. TIGTA's audit, investigative, and inspection and evaluation work provides coverage of this growing national problem, providing proactive prevention and detection efforts that are required 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. These key resources and critical infrastructure provide the essential services that underpin American society. Degradation of the public's trust in the tax system would lead to a decline in voluntary compliance and represents a risk to national security.

Inspections and Evaluations Outcomes: I&E continue to conduct reviews and will serve as TIGTA's point of contact to the Recovery and Transparency Board's Working Group through FY 2013. During FY 2012, I&E issued a report to determine whether the IRS Contract Security Workforce was suitable for employment at IRS facilities and whether responsible IRS personnel are qualified to oversee day-to-day operations of their assigned security guard contracts. As a result, IRS agreed to initiate process improvement to strengthen oversight and provide assurance that the security guards are suitable for employment. In FY 2012, I&E conducted a follow-up inspection of the IRS Transportation Subsidy Program (Program). The inspections revealed that the IRS implemented only portions of the proposed corrective. In addition, I&E reviewed policies and procedures with treaty partners through the international Exchange of Information Program. Several recommendations were made and corrective actions were implemented by the IRS.

During FY 2012, I&E responded to two requests from the Recovery Accountability and Transparency Board (RATB). In the American Recovery and Reinvestment Act of 2009 (Recovery Act) (Lessons Learned Survey (Survey)), I&E participated in a multi-agency review of lessons learned implementing and executing the Recovery Act. The classified responses from 15 agencies were consolidated and forwarded to the Office of Inspector General, Department of Interior. In the second request, the Recovery Act authorized stimulus funds to be spent within very specific timeframes. I&E received a response on behalf of the IRS, and submitted the Agency Verification of Recovery Act Funds response to the RATB. The RATB will use the collected information to publish a list of Recovery Act appropriations and obligations as reported by the agencies.

Promoting Efficient Spending and the Campaign to Cut Waste: TIGTA continues its commitment to promoting efficient spending and cutting waste. The FY 2014 budget is \$2,462,000 below the FY 2010 enacted budget. The majority of this reduction was absorbed by increasing efficiency, streamlining operations and reducing costs from non-pay items such as:

- Travel - reduced by 34 percent;
- Training - reduced by 30 percent;
- Communications/utilities - reduced by 29 percent, and
- Operations/maintenance of equipment - reduced by 28 percent.

TIGTA will continue to maintain a savings culture to meet future challenges with fewer resources, however, additional cuts could erode TIGTA's ability to carry out its mission.

In accordance with the requirements of Section 6(f)(1) of the *Inspector General Act of 1978* (as amended), the Treasury Inspector General for Tax Administration submits the following information related to its FY 2014 Budget Request:

- The aggregate budget request for the operations of TIGTA is \$149,538,000;
- The portion of the request needed for TIGTA training is \$1,721,000; and
- The portion of the request needed to support the Council of the Inspectors General on Integrity and Efficiency is \$324,000.

The amount requested for training supports TIGTA's training needs for FY 2014.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Treasury Inspector General for Tax Administration	FTE	Amount
FY 2012 Enacted	835	\$151,696
FY 2013 Annualized CR Rate	835	\$152,624
Changes to Base:		
Adjustment to Request	-	\$1,210
Adjustment to FTE Estimate	(29)	-
Non-Recur CR Increase	-	(\$928)
Program Reductions & Efficiencies Proposed in FY 2013	-	(\$2,362)
Oversight of IRS Implementation of Affordable Care Act Proposed in FY 2013	29	\$4,500
Maintaining Current Levels (MCLs):	-	\$1,602
Pay-Raise	-	\$1,104
Non-Pay	-	\$498
Efficiency Savings:	-	(\$383)
Strategically Replacing Series 1811 Investigators with non-1811 Staff	-	(\$383)
Subtotal Changes to Base	-	\$2,429
Total FY 2014 Base	835	\$155,053
Program Changes:		
Program Decreases:	-	(\$5,515)
Program Reductions and Efficiencies	-	(\$4,675)
Reducing RRA 98 Reporting Requirements	-	(\$840)
Total FY 2014 Request	835	\$149,538

2A – Budget Increases and Decreases Description

Adjustment to Request +\$1,210,000 / +0 FTE

Adjustment to FTE Estimate +\$0 / -29 FTE

Adjustment to FTE based on projected utilization.

Non-Recur CR Increase -\$928,000 / +0 FTE

The across-the-board 0.612 percent increase provided in the CR through March 27, 2013.

Program Reductions & Efficiencies Proposed in FY 2013 -\$2,362,000 / +0 FTE

TIGTA has closely scrutinized its budget for cost-saving opportunities. Reaching this savings target without impacting the quality of TIGTA’s programs will require a combination of actions. All vacancies are examined to determine the impact of delayed back-filling and will strategically identify positions where longer lapses will have the smallest impact on mission. TIGTA is also lowering its administrative costs by 20 percent compared to FY 2010 levels, as outlined in Executive Order 13589, *Promoting Efficient Spending*. Additionally, TIGTA has aggressively implemented telework and office right-sizing measures in order to reduce its footprint, and has decreased its contribution for Council of the Inspectors General on Integrity & Efficiency (CIGIE).

Oversight of IRS Implementation of Affordable Care Act Proposed in FY 2013 +\$4,500,000 / +29 FTE

The IRS components of the new ACA legislation are a cornerstone of the Administration's plan to expand coverage for millions of Americans. TIGTA is in a unique position to ensure that IRS implements the law effectively, substantiate the integrity of the program, and reassure lawmakers that the program functions properly. TIGTA has often paved the way for new initiatives that are administered through the tax code. TIGTA's work requires close coordination among its Audit, Investigations, and Inspections and Evaluation functions. Each program office brings unique skills and experience, but the bureau's overall success depends greatly upon these offices' close collaboration. The success of the new ACA program will depend on the government's ability to assure taxpayers that the new changes are properly administered.

Maintaining Current Levels (MCLs) +\$1,602,000 / +0 FTE
Pay-Raise +\$1,104,000 / +0 FTE

The President's Budget proposes a 1 percent pay-raise for federal employees in 2014.

Non-Pay +\$498,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies, and equipment.

Efficiency Savings -\$383,000 / +0 FTE
Strategically Replacing Series 1811 Investigators with non-1811 Staff -\$383,000 / +0 FTE

TIGTA has reorganized its operations and hiring emphasis so that by FY 2014, a goal of four positions currently filled by series 1811 investigators will be replaced by non-1811 staff. This will be done by focusing on the requisite career experience and skills of new hires rather than on the job series. TIGTA is committed to finding the most efficient staffing pattern to carry out its investigative work.

Program Decreases -\$5,515,000 / +0 FTE
Program Reductions and Efficiencies -\$4,675,000 / +0 FTE

TIGTA continues to identify cost-savings in travel, training, contracts, and rent. Further cuts will be made in these areas to reduce budget impact on TIGTA's staffing levels. If necessary, TIGTA will examine all vacancies to determine the impact of delayed back filling and will strategically identify positions where longer lapses will have the smallest impact on mission.

Reducing RRA 98 Reporting Requirements -\$840,000 / +0 FTE

Reducing the reporting requirements identified in TIGTA's charter document, RRA 98 will generate \$840,000 in savings. However, these reductions would require statutory change and are further discussed in the Legislative Proposals section of this document.

2.2 – Operating Levels Table

Dollars in Thousands

Treasury Inspector General for Tax Administration	FY 2012	FY 2013	FY 2014
Object Classification	Actual	Annualized CR Rate	Request
11.1 - Full-time permanent	82,625	82,406	81,779
11.3 - Other than full-time permanent	439	594	584
11.5 - Other personnel compensation	8,377	8,582	8,322
11.9 - Personnel Compensation (Total)	91,441	91,582	90,685
12.0 - Personnel benefits	30,768	30,065	29,750
Total Personnel and Compensation Benefits	\$122,209	\$121,647	\$120,435
21.0 - Travel and transportation of persons	3,361	3,548	3,173
22.0 - Transportation of things	26	20	19
23.1 - Rental payments to GSA	9,082	9,127	9,180
23.2 - Rental payments to others	192	222	221
23.3 - Communication, utilities, and misc charges	1,886	1,940	1,832
24.0 - Printing and reproduction	8	10	7
25.1 - Advisory and assistance services	1,066	1,720	1,334
25.2 - Other services	1,627	817	731
25.3 - Other purchases of goods & serv frm Govt accounts	7,059	7,892	7,675
25.4 - Operation and maintenance of facilities	0	416	400
25.7 - Operation and maintenance of equip	970	1,190	892
26.0 - Supplies and materials	1,306	1,245	1,113
31.0 - Equipment	2,896	3,655	3,451
42.0 - Insurance claims and indemnities	1	50	50
91.0 - Confidential Expenditures	11	25	25
Total Non-Personnel	29,491	31,877	30,103
Total Budgetary Resources	\$151,700	\$153,524	\$150,538
Budget Activities:			
Audit	55,785	58,156	58,790
Investigations	95,915	95,368	91,748
Total Budgetary Resources	\$151,700	\$153,524	\$150,538
FTE	807	837	837

This table includes all available resources, including annual and available multi-year appropriations, reimbursable resources, offsetting collections and user fees.

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</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 (not to exceed 150 for replacement only for police-type use) and hire of passenger motor vehicles (31 U.S.C. 1343(b)); services authorized by 5 U.S.C. 3109, at such rates as may be determined by the Inspector General for Tax Administration; \$149,538,000, 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.</i></p>	

2C – Legislative Proposals

TIGTA proposes eliminating certain reviews required by RRA 98 which add little value to mission achievement. Eliminating these statutory reporting requirements will allow TIGTA to achieve savings and to reinvest resources to conduct high-risk audits. TIGTA proposal includes eliminating reporting requirements in the following areas:

- The requirement to report information regarding any administrative or civil actions related to Fair Tax Collection Practices violations in one of TIGTA’s Semiannual Reports. This pertains to 26 U.S.C. § 7803(d) (1)(G).
- The requirement to review and certify annually that IRS is complying with the requirements of 26 U.S.C. § 6103(e) (8) regarding information on joint filers.
- The requirement to annually report on the IRS compliance with 26 U.S.C. §§ 7521(b) (2) and (c) requiring IRS employees to stop a taxpayer interview whenever a taxpayer requests to consult with a representative and to obtain their immediate supervisor’s approval to contact the taxpayer instead of the representative if the representative has unreasonably delayed the completion of an examination or investigation.
- The annual reporting requirement for the remaining RRA 98 provisions, net of the evaluation of the adequacy and security of the technology of the IRS, should be revised to a biennial reporting requirement.

Section 3 – Budget and Performance Plan

3A – Audit

(\$58,190,000 from direct appropriations, and \$600,000 from reimbursable resources):

OA 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 Annual Audit Plan communicates audit priorities. OA strategically evaluates IRS programs, activities, and functions so that resources are expended in the areas of highest vulnerability to the Nation's tax system. The Audit program incorporates both statutory audit requirements and specific audits identified through TIGTA's risk assessment process. By focusing on the most critical areas, OA ensures that audits of IRS programs and operations identify and recommend improvements that add value while addressing high-risk tax administration issues.

OA's recommendations:

- Promote the economy, efficiency, and effectiveness of IRS operations, and
- Ensure the fair and equitable treatment of taxpayers.

As the IRS adapts to, and operates in, an increasingly complex and rapidly changing environment, TIGTA is challenged to assess and help prevent, detect, and deter fraud, waste, and abuse in IRS programs and operations. TIGTA's stakeholders encourage early oversight involvement with more of a preventive focus to reduce costs, prevent or minimize problems, and ultimately be more effective. OA must be nimble enough to focus limited resources, as appropriate, on issues such as the effect of major new tax law changes and the increasing globalization of tax issues while maintaining the appropriate focus on high-risk assessments and stakeholder concerns. TIGTA has begun to focus on broader, cross-cutting audit strategy areas such as ACA, procurement fraud, and return preparer regulation.

During FY 2012, TIGTA issued 117 audit reports that included potential financial benefits of approximately \$22.7 billion and potentially affected 7.6 million taxpayer accounts. OA's reports for FY 2012 addressed issues that included:

- **Computer Security** – TIGTA noted that the CSIRC is effectively performing most of its responsibilities for preventing, detecting, and responding to computer security incidents. However, the CSIRC's host-based intrusion detection system is not monitoring 34 percent of IRS servers, placing the IRS network and data at risk. Also, incident response policies, plans, and procedures are either nonexistent or are inaccurate and incomplete.
- **Audit Fraud Indicators** – TIGTA identified field audits with fraud indicators that were not recognized and investigated in accordance with some key IRS procedures and guidelines. TIGTA estimated that the IRS could realize up to \$98 million in additional penalty assessments over a five year period if the necessary corrective action is taken.
- **Revocation of Tax-Exempt Status** – The IRS performed extensive outreach, took actions to prepare for automatic revocations, and informed more than 279,500 organizations that their tax-exempt status had been automatically revoked. However, TIGTA determined that

programming changes were incomplete. As a result, more than 15,000 organizations that failed to file for three consecutive years were potentially not identified and informed that their tax-exempt status had been automatically revoked.

- ***First Time Homebuyer Credit*** –While the IRS properly evaluated the questionable claims that were selected for examination, a large number of high-risk claims were not examined, and many of the examinations conducted were unproductive. TIGTA projected that by following the recommendation to apply resources to more productive cases, approximately \$92 million in disallowed credits/additional assessments would be made.
- ***Federal Government Agency Tax Compliance*** - Federal agencies are exempt from paying Federal income taxes. However, they are not exempt from meeting their employment tax deposits and related reporting requirements. As of December 31, 2011, 70 Federal agencies with 126 delinquent tax accounts owed approximately \$14 million in unpaid taxes. In addition, 18 Federal agencies had not filed, or had been delinquent in filing, 39 employment tax returns.
- ***Identity Theft*** - The impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents. TIGTA's analysis of tax returns using characteristics of IRS-confirmed identity theft identified approximately 1.5 million tax returns with potentially fraudulent tax refunds totaling in excess of \$5.2 billion. TIGTA estimated that the IRS could potentially issue \$21 billion in fraudulent tax refunds over the next five years as a result of identity theft.

The goal owner for this budget activity is the Deputy Inspector General for Audit.

Description of Performance

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).

Additionally, TIGTA makes recommendations designed to improve administration of the Federal tax system. The IRS must implement these recommendations in order to realize the financial or non-financial benefits. This second measure assesses TIGTA's effect on improving the IRS accountability, operations, and services. Since the IRS needs time to act on recommendations, TIGTA utilizes the Department of the Treasury's Joint Audit Management Enterprise System to track the percentage of recommendations made four years ago 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 where circumstances may have changed, or when the IRS has taken alternative corrective measures that address concerns TIGTA identified.

For FY 2012, the actual percentage of audit products delivered when promised to stakeholders was 71 percent against a full year target of 70 percent. TIGTA exceeded this target as a result of monitoring the execution of its audit programs to identify additional ways to deliver timely audit products to stakeholders. The actual percentage of recommendations made that have been implemented was 94 percent against a full year target of 85 percent. TIGTA exceeded its target by nine percent as a result of continued discussions throughout the audit process, both on the findings and on potential recommended solutions to better ensure that feasible alternatives were identified. For FY 2014, the target for percentage of audit products delivered when promised to stakeholders is 65 percent, a six percent decrease from FY 2012 actual. The target for percentage of recommendations made that have been implemented is 85 percent, a nine percent decrease from FY 2012 actual. TIGTA lowered the FY 2014 targets to reflect increased vacancies and the uncertainty resulting from the FY 2013 hiring freeze. The staffing vacancies are a result of retirements and job reassignments. The hiring freeze, which has delayed recruitment for key audit positions, will require TIGTA to extend acting roles for frontline managers and executive level positions.

3.1.1 – Audit Budget and Performance Plan

Dollars in Thousands

Audit Budget Activity								
Resource Level	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Annualized CR Rate	Request
Appropriated Resources	\$50,260	\$52,959	\$55,186	\$57,421	\$57,306	\$57,306	\$57,656	\$58,190
Reimbursable Resources	\$525	\$400	\$400	\$551	\$551	\$500	\$500	\$600
Budget Activity Total	\$50,785	\$53,359	\$55,586	\$57,972	\$57,857	\$57,806	\$58,156	\$58,790

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target
Percentage of Audit Products Delivered when Promised to Stakeholders	68.0	65.0	81.0	76.0	68.0	71.0	70.0	65.0
Percentage of Recommendations Made that Have Been Implemented	90.0	85.0	91.0	95.0	93.0	94.0	85.0	85.0

Key: N/A - Not in Effect; DISC - Discontinued; B - Baseline

3B – Investigations

(\$91,348,000 from direct appropriations, and \$400,000 from reimbursable resources):

While most Offices of Inspector General focus primarily on fraud, waste, and abuse, TIGTA's mission is more extensive. TIGTA's statutory responsibility also includes protecting the integrity of tax administration and the ability of the IRS to collect revenue for the Federal Government. To accomplish this, TIGTA investigates allegations of criminal activity and serious misconduct committed by IRS employees, ensures IRS employees' safety and data and

infrastructure security, and protects the IRS against external attempts to corrupt tax administration. These activities speak directly to TIGTA's strategic goal to protect the integrity of tax administration.

TIGTA has implemented a progressive performance model to focus its investigative efforts on these three primary areas of investigative responsibility. The performance model has proven to be a powerful management tool that focuses its investigative resources on core mission-related objectives to assess investigative operations. The model provides reliable statistical data which assist in mission-critical decisions regarding staffing, budgeting, and training. In addition, TIGTA has recently recalibrated its resources for more efficient use in a changing environment. The following summaries highlight TIGTA's investigative efforts in these three core areas:

- **Employee Integrity:** IRS employee misconduct, real or perceived, can erode public trust and impede the IRS ability to effectively enforce tax laws. A key aspect of protecting tax administration is the oversight and investigation of IRS employees and contractors. An estimated 48 percent of TIGTA's current investigations involve alleged employee misconduct. In addition to UNAX integrity lapses, employee integrity investigations include misuse of IRS computer systems, extortion, thefts of Government property and taxpayer remittances, taxpayer abuse, false statements, and financial fraud. TIGTA promotes employee integrity by conducting proactive investigative initiatives to detect criminal and serious misconduct in the administration of IRS programs. For example, during FY 2012, TIGTA initiated 79 proactive investigative initiatives to detect systemic weaknesses or potential IRS program vulnerabilities. Additionally, TIGTA special agents conduct awareness presentations to remind IRS employees of TIGTA's oversight responsibility, as well as sharing information to help identify ways in which they may prevent fraud, waste, and abuse.

During FY 2012, OI received 8,808 complaints, and opened 3,449 investigations. OI remains dedicated to providing effective integrity programs, threat and assault investigations, and other criminal and administrative investigations such as bribery and impersonation. OI also closed 3,446 investigations, which included 1,459 cases of employee misconduct referred for action and 142 cases accepted for criminal prosecution during FY 2012.

- **Employee and Infrastructure Security:** TIGTA's authority to investigate threats, assaults, and related matters is derived from the provisions of Title 26 U.S.C. § 7608(b), authority of internal revenue enforcement officers, RRA 98, the *Inspector General Reform Act of 2008*, and further summarized in Treasury Order 115-01. All reports of assaults, threats, or forcible interference against IRS employees performing their official duties are assigned to OI. Title 26 U.S.C. § 6103 also specifically gives TIGTA the necessary authority to access taxpayer information in support of ongoing investigations, to include tax matters related to assaults and threats involving the IRS.

Today's threat environment is significantly different than it was ten years ago. Physical violence, harassment, and intimidation of IRS employees pose some of the most significant challenges to the implementation of a fair and effective system of tax administration. OI

places high priority on its oversight of IRS employee safety and physical security, protecting approximately 100,000 employees and more than 700 facilities throughout the country.

As a result of the February 2010 attack against the IRS facility in Austin, Texas, which took the life of one IRS employee and injured several others, OI undertook a review of how it focuses criminal investigative resources to address serious threats to IRS personnel, facilities, and critical infrastructure. OI developed an enhanced process of categorizing and prioritizing incoming threats against the IRS and refined the coordination of communications between TIGTA and IRS senior management.

To address current and future threats directed against the IRS and its employees, OI has formed new partnerships with the following entities:

- IRS Office of Physical Security and Emergency Preparedness;
- IRS Office of Online Fraud Detection and Prevention;
- IRS Situational Awareness Management Center;
- IRS Office of Privacy;
- IRS Computer Security Incident Response Center;
- Treasury Operations Center; and
- Federal Protective Service.

As a result of this coordinated effort, TIGTA was instrumental in the creation and development of the IRS Threat Information and Critical Response Initiative (TIRC) to more effectively review and disseminate threat information to IRS stakeholders. The TIRC serves as a focal point for the timely and efficient sharing of threat information, thereby allowing the IRS to take appropriate mitigation actions, to include coordinating with the Federal Protective Service in extending the security perimeter around IRS facilities, shutting down operations, or raising the alert level at affected IRS locations.

To complement the TIRC and enhance cyber and intelligence support, OI reconfigured its headquarters staff by merging the Criminal Intelligence and Cyber Investigative programs to create the Electronic Crimes and Intelligence Division. With this reorganization, OI is better able to leverage its limited resources and create synergy between these two critical functions. Additionally, OI has established a full-time presence at the Federal Bureau of Investigation's (FBI) National Joint Terrorism Task Force and the Domestic Terrorism Operations Unit to support proactive threat investigative functions, particularly related to emerging anti-tax and anti-government groups. These representatives serve as OI's criminal intelligence coordinators for all threat information developed by the FBI and other law enforcement officials that has the potential to directly impact IRS personnel, facilities, or critical infrastructure.

The Internet is increasingly a convenient and easily accessible avenue for the public to vent their opposition, frustration, or anger against the IRS. Immediately following the Austin, Texas incident, almost every breaking news article caused a spike in the level of hostile and threatening comments towards the IRS in online message boards and various other Internet-based forums. An Internet search revealed over 3.2 million "hits" referencing the Austin,

Texas incident, a number that would take thousands of man-hours to decipher without leveraging the use of automated investigative tools. In an effort to combat these types of threats, OI is working to identify a proactive automated search capability to aid in identifying threats against the IRS. Preliminary tests validate the need for a cyber-search tool and no other agency is combing the Internet for potentially violent threats or actions directed at the IRS or its employees.

- ***External Attempts to Corrupt Tax Administration:*** TIGTA is statutorily mandated to investigate external attempts to corrupt tax administration, which include criminal misconduct by non-employees, such as attempted bribes. While all external attempts to corrupt tax administration are of concern, a key aspect of protecting tax administration in today's environment is the oversight and investigation of IRS procurement matters. For example, TIGTA conducts numerous criminal and civil investigations of fraud involving contracts and contractors in support of the IRS Business Systems Modernization (BSM) project. In FY 2010, TIGTA's Procurement Fraud Division (PFD) recovered \$158 million as a result of these investigations. In FY 2011, PFD recovered \$47.9 million for the Nation's treasury through court ordered settlements in these cases. In FY 2012, PFD recovered \$64.7 million.

The PFD's investigations largely focus on violations of the False Claims Act and associated criminal statutes. The majority of these investigations involve alleged claims of inflated billings for labor and services. Since 2003, PFD's investigations have resulted in a steady stream of recoveries to the treasury. The PFD's investigative initiative targeting BSM procurements will seek to identify fraudulently inflated billings as well as improper business relationships between vendors. This initiative is a collaborative effort with OA. However, limited investigative resources diminish investigative outcomes.

One of the major concerns with the BSM contracts is that the Contracting Officers Technical Representatives, the gatekeepers of funds on these contracts, often do not possess the required technical expertise nor are they in proximity to properly evaluate contract deliverables. TIGTA continues to receive and investigate allegations of potential fraud and misconduct involving these contracts. This trend is expected to continue as OI increases its investigations and outreach. The goal owner for this budget activity is the Deputy Inspector General for Investigations.

Description of Performance

Investigative results are a ratio of the number of investigations that were prosecuted, IRS employee investigations administratively adjudicated, threat related investigations, civil actions initiated, and other factors compared to the total number of cases closed. Examples of the types of criminal activity investigated are: threats made against IRS employees, facilities or data infrastructure; bribes offered or sought to compromise IRS tax administration; manipulation of IRS systems and programs through the use of bogus liens and fraudulent IRS financial reporting instruments; and impersonation of IRS officials. In FY 2012, actual performance was 89 percent, while the target was 79 percent. Throughout FY 2012, OI focused its resources on categorizing, prioritizing and responding to threats against IRS employees, facilities, and critical

infrastructure. OI also refined its communications with IRS management. OI and IRS strengthened partnerships to effectively investigate and mitigate current and future threats directed against the IRS and its employees. Primarily as a result of this program emphasis, TIGTA exceeded its FY 2012 target. For FY 2013, OI continues to use the performance model to measure its effectiveness, guide activities, and demonstrate its accomplishments to stakeholders. The performance model is a valuable tool that allows OI to strategically focus its activities around its core mission and redirect its focus when needed. OI will continue to monitor and redirect its demands to determine future targets.

OI will continue to focus its existing resources to address the increasing demand on cases involving threats, assaults, and protecting the integrity of Federal tax administration. OI's performance metrics are linked to crime patterns which are difficult to prognosticate. As pressure on TIGTA's budget has increased in recent years, future budget cuts will be absorbed through staffing. TIGTA's inability to backfill positions as a result of the FY 2013 hiring freeze, and the loss of experienced investigators, would cause the FY 2014 performance target to decrease to 77 percent. This is a 12 percent decrease from the FY 2012 actual of 89 percent.

3.1.2 – Investigations Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity								
Resource Level	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Annualized CR Rate	Request
Appropriated Resources	\$82,601	\$87,574	\$90,897	\$94,579	\$94,694	\$94,390	\$94,968	\$91,348
Reimbursable Resources	\$675	\$500	\$500	\$749	\$749	\$400	\$400	\$400
Budget Activity Total	\$83,276	\$88,074	\$91,397	\$95,328	\$95,443	\$94,790	\$95,368	\$91,748

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target
Percentage of Results from Investigative Activities	81.0	78.0	83.0	86.0	82.0	89.0	79.0	77.0

Key: N/A - Not in Effect; DISC - Discontinued; B - Baseline

Section 4 – Supplemental Information

4A – Summary of Capital Investments

The Treasury Inspector General for Tax Administration (TIGTA), Office of Information Technology (OIT) provides cost-effective, timely Information Technology (IT) products and services that permit successful completion of TIGTA business goals while 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 audit, investigative, legal and management services benefit. The OIT Strategic plan provides for IT products and services that are critical to fulfilling statutory requirements and mandates.

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

- Secure Information and Technology (IT) Mobility;
- Server and Storage Infrastructure;
- Refreshed Applications and Collaboration Environment; and
- IT Governance and Total Cost of Ownership.

TIGTA's full FY 2014 capital investment plan is available in the Treasury Capital Investment Plan report.

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

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