

The Treasury Inspector General  
for Tax Administration

FY 2013

President's Budget  
Submission

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## Section 1 – Purpose

### 1A – Mission Statement

To 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

Resources Available for Obligation	FY 2011 Enacted		FY 2012 Enacted		FY 2013 Request		% Change FY 2012 to FY 2013	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>								
Audit	349	\$57,306	349	\$57,306	373	\$59,710	6.88%	4.20%
Investigations	486	94,390	486	94,390	491	94,124	1.03%	-0.28%
<b>Subtotal New Appropriated Resources</b>	<b>835</b>	<b>\$151,696</b>	<b>835</b>	<b>\$151,696</b>	<b>864</b>	<b>\$153,834</b>	<b>3.47%</b>	<b>1.41%</b>
<b>Other Resources:</b>								
Reimbursables	2	\$1,300	2	\$900	2	\$900	0.00%	0.00%
<b>Subtotal Other Resources</b>	<b>2</b>	<b>\$1,300</b>	<b>2</b>	<b>\$900</b>	<b>2</b>	<b>\$900</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Total Resources Available for Obligation</b>	<b>837</b>	<b>\$152,996</b>	<b>837</b>	<b>\$152,596</b>	<b>866</b>	<b>\$154,734</b>	<b>3.46%</b>	<b>1.40%</b>

### 1B – Mission 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. As one of 73 federal offices of Inspector General, 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, problems, and deficiencies related to the administration of IRS programs and operations. TIGTA's audit recommendations aim to improve IRS systems and operations, while maintaining fair and equitable treatment of taxpayers. 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 explicitly designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration. TIGTA ensures 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.

TIGTA's Fiscal Year (FY) 2013 budget request of \$153,834,000 represents an increase of 1.4 percent above the FY 2012 enacted budget. These resources will finance 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:

- Adapting to the IRS's continuously evolving operations and mitigating intensified risks associated with modernization and security, procurement fraud, addressing the Tax Gap, and human capital challenges facing the IRS in domestic and international operations in order to increase voluntary tax compliance;
- 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 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's service to taxpayers;
- Informing the American people, the Congress, and the Secretary of the Treasury of problems and progress made to resolve them; and
- Overseeing the IRS's efforts to administer tax provisions of the *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010 (ACA)*.

Additionally, TIGTA's strategic goals guide FY 2013 programs. These goals are:

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

These goals contribute to the Department's strategic goal to "Manage the Government's Finances in a Fiscally Responsible Manner."

Of all the priorities listed above, the most recent change came in 2010, when the President signed into law significant changes to the nation's health care system under the ACA. 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 that did not exist 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 these provisions are implemented and administered in accordance with the law and the intent of Congress.

For FY 2011 and FY 2012 TIGTA identified a critical need to initiate 16 ACA-related audits to oversee the implementation of such significant ACA provisions as:

- Small business health care tax credit;
- Indoor tanning excise tax;
- Qualified therapeutic discovery project credits;
- Annual fees assessed on branded prescription pharmaceutical manufacturers and importers;
- Expansion of the adoption credit; and
- Reporting requirements included in the ACA.

TIGTA's audit results to date illustrate the significant need for continued oversight of these ACA provisions. For example, taxpayers erroneously received millions in Adoption Credits; the 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 the 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 tanning services excise tax returns was much lower than expected.

FY 2013 will be a significant year for the oversight of ACA provisions. Several key ACA provisions take effect in FY 2013 and FY 2014, and 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. TIGTA's oversight of the implementation of these provisions is paramount including:

- 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; and
- Modification of itemized deduction for medical expenses.

The Office of Investigations (OI) is similarly impacted by the demands of ACA. As the IRS's 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. 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's implementation of the ACA.

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 to gather and examine intelligence.

The Office of Inspections and Evaluations (I&E) will also provide oversight of the IRS's administration of 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 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.

TIGTA's work requires close coordination among its Audit, Investigations, and Inspections and Evaluations functions. Each program office brings unique skills and experience, but the bureau's overall success depends greatly upon these offices' close collaboration. TIGTA has years of experience in overseeing the roll-out of broad changes to tax administration. The success of the new ACA program will depend on the government's ability to assure taxpayers that the new changes are properly administered. TIGTA continues to provide comprehensive coverage and oversight of all aspects of the IRS's operations. In FY 2011, TIGTA's overall accomplishments included \$9.2 billion in potential increased and/or protected revenue and \$7.4 billion in potential cost savings.

The passage of the *American Recovery and Investment Act of 2009* (Recovery Act) provided funding for the additional workload that has arisen from overseeing IRS efforts to implement a variety of economic stimulus measures. A key component of the Recovery Act is the implementation of 56 tax provisions by the IRS. TIGTA's program plan includes detailed information on all ongoing and planned activities. Recovery work allows TIGTA to revise coordination procedures with the IRS to make interim reports more readily available to the public on TIGTA's website and Recovery.gov; successful Recovery coordination changes will have a positive long-term impact on traditional audit and inspection timelines. In FY 2011, TIGTA issued 16 Recovery Act reports in addition to the 15 previously issued in FYs 2009 and 2010. To date, TIGTA has identified more than \$412 million in questionable costs and made recommendations for better use of over \$643 million in Recovery Act audits, potentially affecting 13.5 million taxpayers. Four more Recovery Act audits are in progress. TIGTA completed five Recovery Act investigations during FY 2011 and has 29 active Recovery Act investigations as of September 30, 2011.

TIGTA's commitment to its strategic goal to be an organization that values its people was recognized in the Partnership for Public Service's 2011 Best Places to Work rankings. TIGTA placed 16 out of 240 in the overall index score measuring the performance of agency

subcomponents related to employee satisfaction and commitment. This ranking is based on the Office of Personnel Management's biennial Federal Human Capital 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. The survey highlights stated that 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.

***Ensuring Taxpayer Privacy and Security:*** Millions of taxpayers entrust the IRS with 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's 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 increased use of portable laptop computers) and external factors (such as the volatile threat environment resulting from increased terrorist and hacker activity) require strong security controls. In FY 2011, Office of Audit (OA) issued a report addressing the need for additional security for the Taxpayer Secure E-mail Program.

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. IRS employees who are found to have committed UNAX violations may be subject to fines, imprisonment, and loss of their jobs. In FY 2011, TIGTA closed 146 UNAX investigations, resulting in 92 adverse personnel actions taken against IRS employees.

The importance of efforts to detect unauthorized access is often underestimated. Too often, UNAX is seen as browsing by bored employees. However, TIGTA's investigations have revealed a far more disturbing trend where, in a significant number of cases, such unauthorized access was only the first stage in far more serious crimes, such as falsification of records, fraud, embezzlement, and identity theft.

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's 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 2011, TIGTA investigators completed 1,858 employee integrity investigations, of which 388 involved UNAX allegations. This resulted in 28 criminal prosecutions and 681 administrative disciplinary actions against IRS employees.

***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. Increasing compliance with the tax code is at the heart of IRS enforcement

programs. The IRS is focusing its casework and enforcement activities to deliver better results and to target those corporations and high-income individuals who fail to report or pay what they owe. The IRS's recently updated estimate of the tax gap, which is defined as the difference between what taxpayers are supposed to pay and what is actually and timely paid, is \$450 billion. In FY 2011, OA issued reports addressing the identification, selection, and examination of individual tax returns with rental real estate activity; IRS contractors receiving payments while owing delinquent taxes; and reducing the number of inaccurate information returns submitted by government entities. 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 2011, TIGTA provided 1,262 presentations to more than 36,300 IRS employees and educated tax professionals by providing 49 awareness presentations to 5,133 tax practitioners and preparers.

***Implementing Tax Law Changes:*** Each filing season tests the IRS's ability to implement tax law changes made by the Congress. It is during the filing season that most individuals file their income tax returns and contact the IRS with questions about specific tax laws or filing procedures. In FY 2011, TIGTA issued reports addressing erroneous plug-in electric and alternative motor vehicle credits, the need for improved controls over refundable credits, and the status of the 2011 filing season.

***Erroneous and Improper Payments:*** Erroneous and improper IRS payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors and/or contractors. In FY 2011, OA issued reports addressing problems related to the IRS's efforts to identify prisoner tax refund fraud as well as establishing targets and strategies to reduce improper Earned Income Tax Credit Payments.

***Advising the Congress:*** During FY 2011, TIGTA provided 16 briefings, one statement for the record, and three 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 who 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 has a significant role in TIGTA's Recovery Act activities. This includes conducting reviews and serving as TIGTA's point of contact to the Recovery and Transparency Board's Working Group. Additionally, I&E issued several reports in FY 2011 that had recommendations adopted by the programs under review. In one example, I&E's on-site review of IRS facilities and the IRS's Occupational Safety and Health program resulted in IRS managers agreeing to enhance the IRS data system used to document, track, and analyze the required quarterly inspections conducted by IRS staff and to develop an action plan to improve communication, oversight, and general management of the IRS's safety inspection program. Also, evaluations of selected IRS Criminal Investigation procedures resulted in recommendations to improve the quality of the data related to selected fraud referrals. An assessment of a reported increase in the number of potential disclosures of personally identifiable information revealed that the reported increase was related to the IRS implementation of improved reporting procedures. Planned inspections and evaluations will result in recommendations to streamline operations, enhance data quality, and improve the efficiency and effectiveness of IRS programs.

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 requested budget for FY 2013:

- The aggregate budget request for the operations of TIGTA is \$153,834,000;
- The portion of the request needed for TIGTA training is \$2,735,000; 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 satisfies all TIGTA training needs for fiscal year 2013.

## **Section 2 – Budget Adjustments and Appropriation Language**

### **2.1 – Budget Adjustments Table**

Dollars in Thousands

<b>Inspector General for Tax Administration</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2012 Enacted</b>	<b>835</b>	<b>\$151,696</b>
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$1,522
Maintaining Current Levels	-	\$1,522
Efficiency Savings:	-	(\$3,828)
Program Reductions & Efficiencies	-	(\$2,894)
Reducing RRA 98 Reporting Requirements	-	(\$840)
Telework & Right-sizing	-	(\$94)
Subtotal FY 2013 Changes to Base	-	(\$2,306)
<b>Total FY 2013 Base</b>	<b>835</b>	<b>\$149,390</b>
Program Changes:		
Program Decreases:	-	(\$56)
Council of the Inspectors General on Integrity & Efficiency	-	(\$56)
Program Increases:	29	\$4,500
Oversight of IRS Implementation of Affordable Care Act	29	\$4,500
<b>Total FY 2013 Request</b>	<b>864</b>	<b>\$153,834</b>

### **2A – Budget Increases and Decreases Description**

#### **Maintaining Current Levels (MCLs) ..... +\$1,522,000 / +0 FTE**

Funds are requested for inflation adjustments (1.7 percent) in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employees Retirement System participation.

#### **Efficiency Savings ..... -\$3,828,000 / +0 FTE**

##### Program Reductions & Efficiencies -\$2,894,000 / +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. TIGTA examines 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. TIGTA is also lowering its administrative costs by 20 percent compared to FY 2010 levels, as outlined in Executive Order 13589, *Promoting Efficient Spending*.

##### 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.

##### Telework & Right-sizing -\$94,000 / +0 FTE

TIGTA closely scrutinizes opportunities for cost savings. TIGTA has aggressively implemented telework and office right-sizing measures in order to reduce its footprint.

**Program Decreases .....-\$56,000 / +0 FTE**

*Council of the Inspectors General on Integrity & Efficiency -\$56,000 / +0 FTE*

Decrease in contribution for Council of the Inspectors General on Integrity & Efficiency (CIGIE) to support coordinated government-wide activities that identify and review areas of weakness and vulnerability in federal programs and operations with respect to fraud, waste, and abuse.

**Program Increases .....+\$4,500,000 / +29 FTE**

*Oversight of IRS Implementation of Affordable Care Act +\$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.

## 2.2 – Operating Levels Table

Dollars in Thousands

Inspector General for Tax Administration	FY 2011		FY 2012		FY 2013	
	Actual	President's Budget	Enacted	Proposed	Proposed	Request
				Reprogra mmings	Operating Level	
<b>FTE</b>	<b>822</b>	<b>864</b>	<b>835</b>	<b>0</b>	<b>835</b>	<b>864</b>
<b>Object Classification</b>						
11.1 - Full-time permanent	81,916	85,290	81,906	0	81,906	82,778
11.3 - Other than full-time permanent	590	605	590	0	590	590
11.5 - Other personnel compensation	8,530	9,781	8,530	0	8,530	8,530
<b>11.9 Personnel Compensation (Total)</b>	<b>\$91,036</b>	<b>\$95,676</b>	<b>\$91,026</b>	<b>\$0</b>	<b>\$91,026</b>	<b>\$91,898</b>
12 - Personnel benefits	29,658	28,761	29,882	0	29,882	30,783
21 - Travel and transportation of persons	3,526	4,964	3,526	0	3,526	3,610
22 - Transportation of things	20	36	20	0	20	36
23.1 - Rental payments to GSA	9,071	9,936	9,071	0	9,071	9,299
23.2 - Rental payments to others	221	292	221	0	221	292
23.3 - Communication, utilities, and misc charges	1,928	2,614	1,928	0	1,928	1,928
24 - Printing and reproduction	10	8	10	0	10	8
25.1 - Advisory and assistance services	815	1,141	815	0	815	815
25.2 - Other services	812	970	812	0	812	869
25.3 - Other purchases of goods and services from Govt. accounts	7,845	7,029	7,844	0	7,844	7,632
25.4 - Operation and maintenance of facilities	413	413	413	0	413	413
25.7 - Operation and maintenance of equip	1,183	1,260	1,183	0	1,183	1,214
26 - Supplies and materials	1,237	1,233	1,237	0	1,237	1,308
31 - Equipment	3,633	3,293	3,633	0	3,633	3,654
42 - Insurance claims and indemnities	1	152	50	0	50	50
43 - Interest and dividends	40	0	0	0	0	0
91.0 - Confidential Expenditures	23	53	25	0	25	25
<b>Total Budget Authority</b>	<b>\$151,472</b>	<b>\$157,831</b>	<b>\$151,696</b>	<b>\$0</b>	<b>\$151,696</b>	<b>\$153,834</b>
<b>Budget Activities:</b>						
Audit	57,221	62,357	57,306	0	57,306	59,710
Investigations	94,251	95,474	94,390	0	94,390	94,124
<b>Total Budget Authority</b>	<b>\$151,472</b>	<b>\$157,831</b>	<b>\$151,696</b>	<b>\$0</b>	<b>\$151,696</b>	<b>\$153,834</b>

**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;">Federal Funds</p> <p>General and Special Funds:</p> <p style="text-align: center;"><b>SALARIES AND EXPENSES</b></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 (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; [\$157,831,000] <i>\$153,834,000 of which not to exceed \$6,000,000 shall be available for official travel expenses</i>; 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>Department of the Treasury Appropriations Act, 2012.</i>)</p>	

**2C – Legislative Proposals**

TIGTA proposes eliminating certain reviews conducted to comply with reporting requirements in RRA 98. These statutory reviews yield little in the way of performance measures and are of relatively low value. TIGTA would prefer to redirect resources applied to these reviews to conducting high-risk audits. TIGTA proposes legislative changes 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 Internal Revenue Code §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’s compliance with Internal Revenue Code §§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 should be revised to a biennial reporting requirement.

## **Section 3 – Budget and Performance Report and Plan**

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### **3A – Audit**

*(\$59,710,000 from direct appropriations, and \$500,000 from reimbursable resources):*

OA promotes the sound administration of the nation's tax laws by completing comprehensive, independent performance and financial-related audits of IRS programs and operations. Audit resources focus oversight on high priority areas through a recurring process of evaluating the status of IRS programs, activities, and functions. OA's wide range of products and services (1) strengthen the economy, efficiency, and effectiveness of IRS operations, and (2) ensure the fair and equitable treatment of taxpayers. TIGTA's Annual Audit Plan establishes and communicates audit priorities. Audit planning incorporates both statutory audit requirements and specific audits identified through a comprehensive and rigorous risk assessment process. By focusing on the most critical areas, OA ensures that audits of IRS programs and operations identify and recommend improvements that consistently add value while addressing senior management's top priorities.

As the IRS adapts to, and operates in, an increasingly complex and rapidly changing environment, OA must also adapt by continuing to help prevent, detect, and deter fraud, waste, and abuse in IRS operations. TIGTA's stakeholders encourage early oversight involvement with a preventive focus on reducing costs and preventing or minimizing risks of problems occurring while ensuring the long-term effectiveness of IRS programs. TIGTA is targeting Audit resources in the important area of procurement fraud detection and deterrence. TIGTA strives to be nimble enough to shift limited resources when appropriate to quickly focus on emerging priorities such as Affordable Care Act provisions and the globalization of tax issues.

During FY 2011, TIGTA issued 132 audit reports that included potential financial benefits of approximately \$16.9 billion (including \$7.4 billion in Cost Savings and \$9.2 billion in Increased Revenue/Revenue Protected) and potentially affected 22.7 million taxpayer accounts in areas such as taxpayer burden, taxpayer rights and entitlements, and increased revenue/revenue protected. OA's FY 2011 reports addressed issues that included:

***Education Credits*** – TIGTA identified 1.7 million taxpayers who appear to have erroneously received \$2.57 billion in education credits. Over a four-year period, the potentially erroneous education credits could reach \$5.3 billion.

***Examination of Returns With Rental Real Estate Activity*** – Increased examinations through the IRS rental real estate Compliance Initiative Programs could increase potential tax assessments by \$27.3 million over a five-year period.

***Unemployment Trust Fund (UTF) Expenses*** – TIGTA identified insufficient controls for calculating UTF expenses. The IRS overestimated its UTF-related expenses by \$63 million from FY 2005 through FY 2009. As a result, these funds were not available to fund the federal government's share of unemployment benefit payments to eligible taxpayers.

***Secure E-mail Program*** – Additional security is needed for the Taxpayer Secure E-mail Program. Although the IRS implemented some controls, additional actions are needed to protect taxpayer's sensitive data and the IRS computer network.

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. The second measure assesses TIGTA's effect on improving the IRS's 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 2011, the actual percentage of audit products delivered when promised to stakeholders was 68 percent against a full year target of 65 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 93 percent against a full year target of 83 percent. TIGTA exceeded its target by ten percent as a result of continued discussions throughout the audit process on the findings and potential recommended solutions to better ensure feasible alternatives were identified. These reports included recommendations impacting over 22.6 million taxpayer accounts. For FY 2013, the target for percentage of audit products delivered when promised to stakeholders is 70 percent. The percentage of recommendations made that have been implemented is also projected to increase for FY 2013. The new target is 85 percent up from a current target of 83 percent. TIGTA has revised its targets upwards as a result of ongoing project management training aimed at among other things, timely delivery of audit products and services. OA training also reflects TIGTA's commitment to its project management principles.

### 3.1.1 – Audit Budget and Performance Report and Plan

Dollars in Thousands

#### Audit Budget Activity

Resource Level	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Appropriated Resources	\$49,761	\$50,260	\$52,959	\$55,186	\$57,421	\$57,306	\$57,306	\$59,710
Reimbursable Resources	\$525	\$525	\$400	\$400	\$551	\$551	\$500	\$500
<b>Total Resources</b>	<b>\$50,286</b>	<b>\$50,785</b>	<b>\$53,359</b>	<b>\$55,586</b>	<b>\$57,972</b>	<b>\$57,857</b>	<b>\$57,806</b>	<b>\$60,210</b>

<b>Budget Activity Total</b>	<b>\$50,286</b>	<b>\$50,785</b>	<b>\$53,359</b>	<b>\$55,586</b>	<b>\$57,972</b>	<b>\$57,857</b>	<b>\$57,806</b>	<b>\$60,210</b>
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Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Target	FY 2013 Target
Percentage of Audit Products Delivered when Promised to Stakeholders	N/A	68.0	65.0	81.0	76.0	68.0	70.0	70.0
Percentage of Recommendations Made that Have Been Implemented	N/A	90.0	85.0	91.0	95.0	93.0	85.0	85.0

Key: DISC - Discontinued and B - Baseline

### 3B – Investigations

*(\$94,124,000 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 employee 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 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's 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 52 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 2011, TIGTA initiated 91 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 2011, OI processed 8,924 complaints, and opened 3,622 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 3,907 investigations, which included 1,499 cases of employee misconduct referred for action and 237 cases accepted for criminal prosecution during FY 2011.

***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.

OI has also forged new partnerships to deal with current and future threats directed against the IRS and its employees. These entities include:

- 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; and
- Treasury Operations Center.

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 an 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.

OI also provides armed escort service for IRS employees in potentially dangerous situations. Upon request, TIGTA's special agents escort IRS employees when they require face to face contact with a potentially dangerous taxpayer. Using armed escorts, TIGTA is able to provide a safe environment for the IRS employee to conduct tax administration functions.

***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's 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 \$47.5 million for the nation's Treasury through court ordered settlements in these cases.

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, taxpayers identified as potentially dangerous as a result of TIGTA's investigation, investigations referred to the IRS Office of Professional Responsibility for action, and other factors. 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 liabilities; 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 2011, actual performance was 82 percent, while the target was 79 percent. Throughout FY 2011, OI continued to focus 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 mitigate current and future threats directed against the IRS and its employees. Primarily as a result of this program emphasis, TIGTA exceeded its FY 2011 target. For FY 2012, OI will continue 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.

The FY 2013 target for percentage of results from investigative activities will be 80 percent, an increase over TIGTA's FY 2011 target of 79 percent. 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.

### 3.1.2 – Investigations Budget and Performance Report and Plan

Dollars in Thousands

#### Investigations Budget Activity

Resource Level	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Appropriated Resources	\$82,192	\$82,601	\$87,574	\$90,897	\$94,579	\$94,694	\$94,390	\$94,124
Reimbursable Resources	\$675	\$675	\$500	\$500	\$749	\$749	\$400	\$400
<b>Total Resources</b>	<b>\$82,867</b>	<b>\$83,276</b>	<b>\$88,074</b>	<b>\$91,397</b>	<b>\$95,328</b>	<b>\$95,443</b>	<b>\$94,790</b>	<b>\$94,524</b>

<b>Budget Activity Total</b>	<b>\$82,867</b>	<b>\$83,276</b>	<b>\$88,074</b>	<b>\$91,397</b>	<b>\$95,328</b>	<b>\$95,443</b>	<b>\$94,790</b>	<b>\$94,524</b>
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Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Target	FY 2013 Target
Percentage of Results from Investigative Activities	79.0	81.0	78.0	83.0	86.0	82.0	79.0	80.0

Key: DISC - Discontinued and B - Baseline

[Detailed information about each performance measure, including definition, verification and validation](#) is available.

## **Section 4 – Supplemental Information**

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### **4A – Capital Investment Strategy**

#### **Secured Mobile Computing Capability**

As threats against the tax system rise, TIGTA is making strategic investments to increase the mobility of TIGTA employees so that they can continue to work effectively wherever the need or threat dictates. This is primarily being accomplished through deployment of secure wireless computer networking infrastructure. Wireless networking has certain inherent risks, which, given the taxpayer privacy issues represented by the data that TIGTA uses and maintains, must be carefully managed. With this budget, TIGTA staff will deploy well-proven tools that significantly enhance flexibility, responsiveness, collaboration, and effectiveness.

#### **Consolidated Server Infrastructure**

TIGTA has been a leader for years in server consolidation and virtualization and “private cloud” style computing. Small computing facilities are strategically networked around the country and designed to increase effectiveness, continuity of operations and system survivability.

Strategically consolidated infrastructure also allows a small TIGTA technical staff to maintain more computing power at lower cost, including remotely administering facilities in “lights out” mode. This budget will allow TIGTA to continue investing in more powerful, less costly, and more robust computing infrastructure, providing more capability while maintaining costs.

#### **Refreshed Desktop Computers**

By the end of FY 2012, TIGTA plans to refresh its client computing hardware and software platforms to use the most efficient power management settings on the most efficient hardware platform available. TIGTA has already implemented additional power setting capabilities on the existing platforms that deliver lower-power consumption savings and improve user efficiency. The new desktop technology is actively maintained by the manufacturers, freeing technical staff for more valuable contributions. Active management will strengthen IT security by facilitating anti-virus, anti-spam, anti-spy, intrusion detection/prevention, monitoring, and patch management. TIGTA desktop computers will be more secure and less susceptible to cyber attacks.

#### **IT Governance and Total Cost of Ownership**

In FY 2010, TIGTA established its new Information Technology (IT) governance program. All new IT requests pass through a Program Management Board (PMB) chaired by the Associate Inspector General for Mission Support. Requests must present a total cost picture, a positive business case, and high-level work breakdown schedule, adjusted for risks, to gain PMB approval to commence work. Projects involving significant financial commitments or high mission visibility require approval from the Investment Review Board, composed of TIGTA's senior executives.

By FY 2012, TIGTA plans to extend its new governance process to all TIGTA business units to help manage projects and priorities. Under TIGTA's program-management process, milestones for all projects are established and tracked. At any point, projects that have cost overruns, are behind schedule, and/or are not delivering at anticipated business performance levels are analyzed for cause.

**Law Enforcement Vehicles**

TIGTA's capital asset strategy is used to manage its fleet of law enforcement vehicles. General Services Administration (GSA) guidelines state vehicles should be replaced every three years or 60,000 miles, whichever may occur earlier. GSA guidelines also state an agency can keep a government-owned vehicle longer only if the vehicle can be operated without excessive maintenance cost or substantial reduction in resale value. Currently TIGTA's vehicle fleet exceeds GSA fleet guidance, saving substantial taxpayer resources.

[A summary of capital investment resources, including major information technology and non-technology investments](#) is available.