

Treasury Inspector General for Tax Administration

Mission Statement

To provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
	Enacted	Enacted	Request	\$ Change	% Change
Salaries and Expenses					
Audit	\$50,260	\$52,959	\$55,055	\$2,096	3.96%
Investigations	82,601	87,574	90,681	3,107	3.55%
Total Appropriated Resources	\$132,861	\$140,533	\$145,736	\$5,203	3.70%
Total FTE	817	835	835	0	0.00%

FY 2009 Priorities

- Adapting to the Internal Revenue Service's (IRS) continuously evolving operations and mitigating intensified risks associated with modernization, addressing the tax gap, and enforcement efforts;
- Responding to threats and attacks against IRS employees, property, 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 cost savings and enhancing IRS' service to taxpayers; and
- Informing Congress and the Secretary of the Treasury of problems and progress made to resolve them.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Inspector General for Tax Administration (TIGTA) was created by Congress to provide independent oversight of the IRS. TIGTA's investigations and audits protect and promote the fair administration of the American tax system. Its responsibilities include ensuring that the IRS is accountable for more than \$2 trillion in tax revenue received each year. TIGTA's investigations ensure the integrity of IRS employees, contractors, and other tax professionals; provide for infrastructure security; and protect the IRS from external attempts to threaten or corrupt the administration of the tax laws. TIGTA conducts audits that advise 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 oversight is essential to the efficiency and equity of the federal tax administration system.

TIGTA's FY 2009 budget request is \$145,736,000, an increase of 3.7 percent above the 2008 enacted level. These requested resources will finance critical investigative and audit services, ensuring the integrity of tax administration on behalf of the nation's taxpayers. TIGTA's investigative and audit priorities include:

- Adapting to the IRS' continuously evolving operations and mitigating intensified risks associated with modernization, addressing the tax gap, and enforcement efforts;
- Responding to threats and attacks against IRS employees, property, 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 cost savings and enhancing the IRS service to taxpayers; and
- Informing Congress and the Secretary of the Treasury of problems and progress made to resolve them.

Additionally, TIGTA's strategic goals contribute to the Department goals and objectives. These strategic 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.

1B – Program History and Future Outlook

Previously a longstanding enforcement office within the IRS, TIGTA was established as an independent office in January 1999 in accordance with the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). TIGTA is mandated to provide independent audit and investigative services necessary to improve the quality and credibility of IRS oversight. TIGTA's investigations and audits are integral to the efficient and equitable application of the nation's tax laws and thereby ensure that this critical source of federal revenue is prudently and fairly administered and secure from internal and external threats. Oversight activities are explicitly designed to identify high-risk systemic inefficiencies in IRS operations and investigate exploited weaknesses in tax administration.

In FY 2007, TIGTA's accomplishments included:

Ensuring Taxpayer Privacy and Security: Millions of taxpayers entrust the IRS with sensitive financial and personal data, which is processed and stored by IRS computer systems. This trust is the cornerstone of the nation's voluntary tax compliance system. However, increased reports of identity theft from both the private and public sectors emphasize the importance of protecting taxpayer data. In response to increased reports of theft of government-owned computers over the past year, TIGTA and the IRS Computer Security Incident Response Center (CSIRC) worked together to mitigate any adverse impact on tax administration resulting from these computer or data thefts. Specifically, TIGTA and CSIRC signed a Memorandum of Understanding that included a process to accurately report and document lost and/or stolen IRS information technology assets. This immediate notification process will promote a swift response, and preemptive measures to protect sensitive information maintained by the IRS.

Tax Compliance: TIGTA's increased community outreach efforts have helped the IRS to deliver quality customer service to taxpayers and the tax practitioner community. TIGTA worked diligently to make contact with large segments of the IRS workforce and other external entities. By doing so, TIGTA developed relationships with these groups that assist in identifying crimes against the IRS and taxpayers. The outreach efforts resulted in increased reports of bribery, unauthorized access and disclosure of private taxpayer information (UNAX) violations, and other offenses that undermine effective tax administration. Between October 2006 and September 2007, TIGTA provided presentations to more than 52,000 IRS employees and external entities. Specifically, TIGTA's Office of Investigations (OI) provided integrity and fraud awareness presentations to revenue officers and revenue agents at their continuing professional education conferences. During this same period, OI worked to educate tax professionals by providing 101 awareness presentations to 8,784 tax practitioners and preparers at professional conferences.

Additionally, TIGTA continues to provide comprehensive coverage and oversight of all aspects of the IRS' daily operations. TIGTA's Office of Audit (OA) not only focuses on the economy and efficiency of IRS functions, but also works to ensure that taxpayers' rights are protected and the taxpaying public is adequately served. Overall, as of

September 30, 2007, audit reports potentially produced financial benefits of approximately \$3.55 billion, and potentially impacted approximately 5.7 million taxpayers' accounts in areas such as taxpayer burden, rights, and entitlements, taxpayer privacy and security, protection of resources/reliability of information, and increased revenue/revenue protected. TIGTA's audits have identified potential unsubstantiated noncash contributions as well as opportunities to assess additional Social Security and Medicare taxes on wages. TIGTA's investigative and audit compliance efforts helped the IRS deliver quality service, ensure equitable treatment of taxpayers, and identify the potential loss of revenue to the federal government.

Advising Congress: As of September 30, 2007, TIGTA provided 5 testimonies, 18 briefings, and 250 responses to Congress and its professional staff regarding investigative and audit activities. Through direct communication, TIGTA aims to address the interest of congressional committees on critical issues, thus avoiding unsubstantiated concerns that may needlessly impede IRS operations. Accordingly, TIGTA's Inspections and Evaluations (I&E) group began its first year of operation after a successful pilot project during FY 2006. The I&E group complements the work of our audit and investigative functions and provides TIGTA with additional flexibilities and capabilities to meet its mission and address increasing requests for IRS program reviews from Congress and other IRS stakeholders. The scope of the group's efforts ranges from answering congressional concerns to evaluating tax issues in regard to the IRS' ability to administer the tax laws.

The I&E group has positioned TIGTA well to respond to external stakeholders promptly. To meet the challenge in FY 2007, TIGTA reallocated resources. As the group continues its work, we expect its influence in overseeing tax administration to grow and its service of informing interested parties to expand.

Overall Investigative Outcomes: Between October 1, 2006, and September 30, 2007, 81 percent of the 3,597 final closed investigations generated results, including 1,663 cases of employee misconduct referred for action and 206 cases accepted for prosecution with final legal action. Specifically, unauthorized access to confidential tax information remains a significant problem for the IRS. During the same period, TIGTA opened 521 new UNAX cases and closed 621 cases, 594 of which resulted in personnel action against IRS employees.

Overall Audit Outcomes: TIGTA issued a total of 180 audit, inspection, and evaluation reports between October 1, 2006, and September 30, 2007, identifying approximately \$3.55 billion in potential financial benefits (i.e., costs savings, increased/protected revenue, taxpayer rights and entitlements, and inefficient use of resources). These audits returned \$52 for each \$1 invested this fiscal year.

In FY 2008, as the IRS evolves, TIGTA faces the challenge of adapting its oversight activities to address increasingly complex and high-risk issues associated with IRS operations. Some of these issues include detection and investigation of fraud and electronic crime, procurement activities, taxpayer privacy, and an increasing number of

requests for IRS program reviews from Congress and other IRS stakeholders. Each of these areas presents significant challenges for TIGTA and the IRS. The following are highlights of these issues and their challenges:

Fraud and Electronic Crime: TIGTA's reviews have identified persistent IRS computer weaknesses that could jeopardize the security of personally identifiable information. The sensitivity of the data makes the IRS an attractive target for employees, hackers, and others who could use the information for fraud and identity theft. TIGTA's audit and investigative work provides for coverage of this growing national problem, providing proactive prevention and detection efforts that are required of this highly vulnerable and ever-evolving area. As described in Presidential Decision Directive NSC-63, IRS operations that fund the federal government are part of the nation's critical infrastructure. Degradation of the public's trust in the tax system leading to a decline in voluntary compliance represents a potential risk to national security.

Taxpayer Privacy: The protection of confidential taxpayer information is of critical importance to Congress and the taxpaying public. In August 1997, the Taxpayer Browsing Protection Act rendered the willful inspection and/or disclosure of federal tax information without proper approval, known as unauthorized access by IRS employees, state and other federal employees, and contractors, a criminal offense. As the IRS continues its modernization effort, TIGTA faces the challenge of keeping pace with the increased risk of UNAX violations expected to result from IRS' plans to install 261 new records systems. Uninvestigated, UNAX violations undermine the taxpaying public's trust in the federal tax system to safeguard confidential tax information. In addition, they erode voluntary compliance, facilitate criminal violations, and enable potentially hazardous security breaches of IRS computer systems.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Salaries and Expenses	FTE	Amount
FY 2008 Enacted	835	\$140,533
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		615
Pay Annualization		799
Pay Inflation Adjustment		2,419
Transfers In:		
Transfer from IRS for building operations		1,370
Total FY 2009 Base	835	\$145,736
Total FY 2009 President's Budget Request	835	\$145,736

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$3,833,000 / +0 FTE

Non-Pay Inflation Adjustment +\$615,000 / +0 FTE

Funds are requested for the other non-labor related items such as contracts, travel, supplies, equipment, and GSA rent.

Pay Annualization +\$799,000 / +0 FTE

Funds are requested for FY 2009 costs of January 2008 pay raise.

Pay Inflation Adjustment +\$2,419,000 / +0 FTE

Funds are requested for the FY 2009 pay raise.

Transfers In +\$1,370,000 / +0 FTE

Transfer from IRS for building operations +\$1,370,000 / +0 FTE

Transfer of \$1,370,000 from IRS to fund expenses for building operations and selected support services currently provided by IRS on behalf of TIGTA.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Salaries and Expenses	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Recission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	817	835		835	835
Object Classification:					
11.1 - Full-time permanent	74,148	75,901	0	75,901	78,314
11.3 - Other than full-time permanent	463	576	0	576	576
11.5 - Other personnel compensation	8,109	9,398	0	9,398	9,131
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	25,289	25,226	0	25,226	26,298
13 - Benefits for former personnel	0	0	0	0	0
21 - Travel and transportation of persons	3,616	4,552	0	4,552	4,834
22 - Transportation of things	57	24	0	24	24
23.1 - Rental payments to GSA	7,853	8,024	0	8,024	8,952
23.2 - Rental payments to others	272	282	0	282	288
23.3 - Comm, utilities, and misc charges	2,609	8,688	0	8,688	2,570
24 - Printing and reproduction	19	8	0	8	8
25 - Other contractual Services	0	0	0	0	0
25.1 - Advisory and assistance services	424	1,152	0	1,152	1,175
25.2 - Other services	659	921	0	921	986
25.3 - Other purchases of goods and services from Govt. accounts	3,941	0	0	0	6,695
25.4 - Operation and maintenance of facilities	225	407	0	407	407
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	0	0	0	0	0
25.7 - Operation and maintenance of equip	1,154	1,252	0	1,252	1,277
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	1,030	1,170	0	1,170	1,193
31 - Equipment	2,809	2,750	0	2,750	2,805
32 - Land and structures	0	0	0	0	0
33 - Investments and loans	0	0	0	0	0
41 - Grants, subsidies, and contributions	0	0	0	0	0
42 - Insurance claims and indemnities	130	150	0	150	150
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
91.0 - Confidential Expenditures	54	52	0	52	53
Total Budget Authority	\$132,861	\$140,533	\$0	\$140,533	\$145,736
Budget Activities:					
Audit	50,260	52,959	0	52,959	55,055
Investigations	82,601	87,574	0	87,574	90,681
Total Budget Authority	\$132,861	\$140,533	\$0	\$140,533	\$145,736

2.3 – Appropriations Detail Table

Dollars in Thousands

Appropriation Detail Table
(Dollars in Thousands)

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	325	\$49,087	341	\$50,260	349	\$52,959	349	\$55,055	0.00%	3.96%
Investigations	467	83,427	476	82,601	486	87,574	486	90,681	0.00%	3.55%
Subtotal New Appropriated Resources	792	\$132,514	817	\$132,861	835	\$140,533	835	\$145,736	0.00%	3.70%
Other Resources:										
Offsetting Collections - Reimbursable	3	927	3	1,200	3	900	3	900	0.00%	0.00%
Subtotal Other Resources	3	\$927	3	\$1,200	3	\$900	3	\$900	0.00%	0.00%
Total Resources Available for Obligation	795	\$133,441	820	\$134,061	838	\$141,433	838	\$146,636	0.00%	3.68%

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;">SALARIES AND EXPENSES</p> <p>For necessary expenses of the Treasury Inspector General for Tax Administration, in carrying out the <i>Inspector General Act of 1978, as amended</i>, including purchase (not to exceed 150 for replacement only for police-type use) and hire of passenger motor vehicles (<i>31 U.S.C. 1343 (b)</i>); services authorized by <i>5 U.S.C. 3109</i>, at such rates as may be determined by the Inspector General for Tax Administration, not to exceed \$6,000,000 for official travel expenses; and not to exceed \$500,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration [\$140,533,000] \$145,736,000; and of which not to exceed \$1,500 shall be available for official reception and representation expenses. (<i>Department of the Treasury Appropriations Act, 2008</i>)</p>	

2C – Legislative Proposals

TIGTA does not have any legislative proposals for FY 2009.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: <http://www.treas.gov/offices/management/budget/strategic-plan/>

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Outcome	FY 2008 Enacted AMOUNT	FY 2009 Request AMOUNT	Percent Change AMOUNT
Accountability & trans	141,433	146,636	3.7%
Total	\$141,433	\$146,636	3.7%

3A – Audit (\$55,055,000 from direct appropriations and \$500,000 from reimbursable programs): The Office of Audit’s (OA) mission is to provide comprehensive coverage and oversight of all aspects of the IRS’ daily operations. Audits, inspections, and evaluations not only focus on the economy and efficiency of IRS functions but also ensure that taxpayers’ rights are protected and the taxpaying public is adequately served. Moreover, IRS implementation of audit recommendations results in: cost savings and increased or protected revenue; reduction of taxpayer burden; protection of taxpayer rights and entitlements, taxpayer privacy and security; and protection of IRS resources. Overall, as of September 30, 2007, audit reports produced potential financial benefits of approximately \$3.55 billion, and potentially impacted approximately 5.7 million taxpayer accounts in areas such as taxpayer burden, rights and entitlements, taxpayer privacy and security, protection of resources/reliability of information, and increased revenue/revenue protected.

Each fiscal year, OA develops an annual audit plan that communicates oversight priorities to Congress, the Department of the Treasury, and the IRS. This plan includes statutory audit coverage and high risk audit work. The statutory coverage includes audits mandated by the IRS Restructuring and Reform Act of 1998, as well as reviews that address computer security and financial management. The high-risk workload includes issues pertaining to the IRS' modernization efforts, major management challenges, response to the President's Management Agenda, progress in achieving its strategic goals, as well as Congressional and other stakeholder requests for audit coverage. By focusing on these critical areas, OA ensures that TIGTA audits identify and recommend improvements in IRS programs, including:

Tax Compliance: The tax gap exemplifies the considerable challenges the IRS faces in collecting sufficient revenue and the federal tax system’s critical dependence on

voluntary compliance. In February 2006, the IRS estimated the gross tax gap, defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year, to be \$345 billion for Tax Year 2001. TIGTA evaluated the reliability of the IRS-developed tax gap figures and concluded that the IRS lacked sufficient information to completely and accurately assess the tax gap and voluntary compliance rate. A reliable estimate of the overall tax gap and its components is critical to tax administration and tax policy decision-makers. TIGTA recommended that the IRS continue to conduct reviews on a regular basis for major segments of the tax gap and that it consider establishing a tax gap advisory panel that includes tax and economic experts to identify ways to improve the methods to measure voluntary compliance. IRS management agreed with the recommendations. Continued TIGTA oversight of tax gap issues, including data reliability, enforcement of laws, and taxpayer assistance, is necessary to ensure that the IRS enhances voluntary compliance by balancing taxpayer services and enforcement without jeopardizing taxpayer rights.

In FY 2007, TIGTA completed a review that included an assessment of the processing of individual income tax returns reporting deductions for noncash charitable contributions, and estimated that 101,236 taxpayers could have claimed unsubstantiated noncash contributions totaling approximately \$1.8 billion for the period of January 15 through September 21, 2006. The IRS agreed to implement a number of corrective actions in this area. TIGTA plans to do follow-up work and will test the effectiveness of these corrective actions once they have been implemented.

Further, as the tax collectors for the Social Security program, the IRS must help taxpayers meet their tax responsibilities by assessing and collecting the proper amount of employment taxes in this area. Based on the results of an audit addressing the IRS' processing of Form 4137, Social Security and Medicare Tax on Unreported Tip Income, TIGTA estimated that the IRS could assess an additional \$108 million¹ in Social Security and Medicare taxes each year. The IRS agreed to revise Form 4137 to capture the data necessary to assess the employer's share of Social Security and Medicare taxes on unreported tip income and to create a new form for reporting the employee's share of these taxes on wage income. Once these corrective actions have been implemented, TIGTA will reevaluate the IRS' improvements in this area.

Regarding the 2007 filing season, one of TIGTA's concerns was the IRS' Telephone Excise Tax Refund (TETR) program. The refund is the most wide-reaching refund in the history of the IRS. The IRS estimated that between 145 million and 165 million individual taxpayers would be eligible to claim this one-time refund, including many without a filing requirement. Because the IRS had collected approximately \$8 billion from individual taxpayers for the applicable period, it had a goal to return as close to this amount as possible while minimizing the total refunds made above this amount. To minimize the number of overstated refund requests and administrative burden on individual taxpayers, the IRS offered individuals standard refund amounts. TIGTA pointed out that a significant amount of the telephone excise tax may never be refunded.

¹ This is comprised of approximately \$20 million in Social Security and Medicare taxes on tips and approximately \$88 million in Social Security and Medicare taxes on wages.

TIGTA attributed this to the success of the standard refund amounts and to the fact that many taxpayers were simply unaware of the refund despite the IRS' efforts. Early in the filing season, TIGTA found that certain processing controls needed strengthening to ensure taxpayers claiming amounts greater than one of the standard amounts included required documentation. Upon notification, the IRS took action to address this issue. TIGTA also found that more than 26,000 taxpayers would unnecessarily receive a Tax Year 2007 Tax Package as a result of their TETR program claim. The unnecessary packages would cost the IRS additional resources to send and cause taxpayers burden. IRS is using TIGTA's data to suppress the mailing of unnecessary tax packages to taxpayers.

TIGTA also raised concerns that erroneous claims often went unchallenged by the IRS. Many taxpayers, possibly due to misunderstanding the Form 8913 (Credit for Federal Telephone Excise Tax Paid), may have claimed refunds of the total amounts of their telephone bills. (Form 8913 was not focus tested to ensure taxpayers understood it.) Other taxpayers and preparers may have intentionally overstated their claims. As of June 2007, over 52,000 potentially egregious claims had been received that did not meet the IRS' criteria for review. The amount of telephone excise tax on these claims totaled more than \$43 million. Over 38,000 of these claims were on tax returns with no Schedules C (Profit or Loss From Business), E (Supplemental Income and Loss) or F (Profit or Loss From Farming), which makes the claimed amounts even more questionable. If each of the 38,000 returns claimed the standard excise tax refund amount of \$60, the total refunds would equal approximately \$2.3 million. Because the refunds have been issued for these returns and because any incorrect or abusive refunds would have to be recovered through court proceedings, TIGTA's recommendations only act as a lessons learned for similar future refund programs. However, TIGTA believes the IRS could have reduced the number of incorrect or abusive refunds if it had reexplored all its options during the filing season. These options included sending notices (prior to refunds being issued) that offered taxpayers the opportunity to self-correct their returns; the postponement of some Examination function work; and the working (or partial working) of some of the simpler TETR cases by non-Examination function employees.

Quality of Taxpayer Services: The IRS has experienced a steady growth in electronic filing (e-filing) of income tax returns over the past several years. However, while the number of e-filed returns increased 9.18 percent in 2007, the total volume of e-filed returns was less than projected, and OA has expressed concern regarding the projected slowing of the growth of e-filed returns. The slower growth rate will extend the time period needed to achieve the goal of 80 percent e-filed returns and delays associated cost savings. Current IRS projections show that by 2013, about 72 percent of individual income tax returns will be e-filed. A contributing factor to the slowing growth of e-filed returns is the disappointingly low use of the Free File Program, and the IRS' decision to eliminate the Telefile Program in 2005. Of the 93 million taxpayers eligible for the Free File Program in 2006, only 3.9 million (4.2 percent) used it. The number of Free File users declined even more in 2007 to 3.8 million. OA raised concerns regarding the quality and accessibility of the free e-filing services offered by the IRS. TIGTA also plans to audit the IRS strategy to modernize submission processing. The IRS strategy

includes implementing Modernized e-File and Web Direct filing to increase electronic filings and employing technology and operational improvements to process returns, payments, and refunds more accurately and efficiently by 2011. The strategy also includes a redesign of the form 1040 and implementation of 2-D barcoding.

Correspondingly, the Subcommittee on Oversight of the House Committee on Ways and Means requested that OA review recent amendments made to the IRS' Free File Alliance Agreement in order to evaluate the differences from the previous agreement and to assess the impact on electronic filing and taxpayer services. OA's review showed that the amended agreement substantially reduced the number of taxpayers eligible to use the program and that Free File services are often inaccessible, time-consuming and difficult to use for eligible taxpayers. In addition, the Free File Program software did not always accurately compute taxes due, and the "Guide Me To A Company" feature that helps taxpayers select a program vendor was not always complete or accurate. Errors and omissions in the tax preparation software and the tools provided by the IRS to aid taxpayers when using the program could undermine taxpayers' confidence in the program and negatively affect the IRS' efforts to reach its goal of increasing the use of electronic filing. OA's recommendations will help ensure that the free filing options provided by the IRS contribute to the growth rate of e-filing.

Additionally, TIGTA completed a review aimed at determining whether the IRS E-Help Desk is providing quality customer service. The E-Help Desk provides assistance to users of IRS electronic products and services. TIGTA determined that improvements to the E-Help Desk are needed to support the IRS' expanding e-services. As a result, TIGTA had several concerns about the E-Help Desk Program. The IRS recognizes the need to provide customers of its electronic products and services with the ability to obtain the assistance needed to successfully use these products. Since the inception of the E-Help Desk in 2002, the IRS has continued to identify ways to improve program efficiency and customer service. Continued expansion in the availability and use of electronic products and services requires that improvements are made to ensure that the program can continue to provide effective customer service.

Privacy and Security: Millions of taxpayers entrust the IRS with sensitive financial and personal data stored in and processed by IRS computer systems. Recent reports of identity theft from both the private and public sectors have heightened awareness of the need to protect this data. The risks that sensitive data or computer systems could be compromised and computer operations disrupted continue to increase. These risks are caused by: internal factors, such as increased connectivity of computer systems and increased use of portable laptop computers; and external factors, such as the volatile threat environment related to increased terrorist and hacker activity.

The IRS annually processes more than 220 million tax returns containing personal financial information and personally identifiable information such as Social Security numbers. A TIGTA audit found that IRS employees lost at least 490 computers between January 2, 2003, and June 13, 2006. Also, employees did not properly encrypt data on computer devices, and password controls over laptop computers were not adequate. As a

TIGTA made several recommendations to improve the privacy of personally identifiable information. The IRS agreed with the recommendations and provided adequate corrective actions. TIGTA is planning an audit in FY 2008 to evaluate the effectiveness of the IRS' corrective actions.

In another review, TIGTA noted that: the IRS' process for prescreening its employees prior to conducting background investigations on employees was appropriate and effective; and IRS employee background investigations were appropriate for the level of risk associated with the positions. However, background investigations were not completed timely for IRS and contractor employees. Of the background investigations TIGTA sampled, the IRS did not complete 77 percent of the IRS employee investigations and 72 percent of the contractor employee investigations within established IRS baselines. Delays in processing background investigations increase the risk that the IRS may be hiring unsuitable employees that could compromise sensitive taxpayer information, physically harm employees, and disrupt operations. TIGTA made recommendations to improve the background investigation process. The IRS agreed with the findings and provided corrective actions to use available management information to track background investigations and to periodically advise appropriate IRS employees to ensure that contractors have been prescreened before providing them access to computer systems.

The value of TIGTA's mission and the effectiveness of its oversight are demonstrated by the increased number of requests for audits TIGTA receives. OA faces the challenge of addressing increasing demands from Congress and other IRS stakeholders in a timely and efficient manner. TIGTA expects the trend of increased congressional interest and requests for action to continue into future fiscal years.

Other Resources: TIGTA receives \$500,000 in offsetting collections and reimbursements to support activity related to DCAA audits conducted on behalf of the IRS and other activity conducted on behalf of the Department of the Treasury.

3.2.1 – Audit Budget and Performance Plan

Audit Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$48,919	\$48,916	\$49,087	\$52,959	\$55,055
Reimbursable Resources	\$1,093	\$915	\$300	\$500	\$500
Total Resources	\$50,012	\$49,831	\$49,387	\$53,459	\$55,555
Budget Activity Total					
	\$50,012	\$49,831	\$49,387	\$53,459	\$55,555

Audit Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percentage of Audit Products Delivered When Promised to Stakeholders	N/A	N/A	68.00%	60.00%	65.00%
Percentage of Recommendations Made That Have Been Implemented	N/A	N/A	90.00%	80.00%	83.00%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: The likelihood that TIGTA’s products will be used is enhanced 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 for our work to produce financial or non-financial benefits. This 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’s Joint Audit Management Enterprise System to track the percentage of recommendations made four (4) years ago that have been implemented, rather than the results of our activities during the fiscal year in which the recommendations are made. TIGTA is able to track its recommendations that have not been implemented by the IRS. TIGTA also has a formal process with the IRS for closing out unimplemented recommendations for which circumstances may have changed, or for when the IRS has taken alternative corrective measures that address concerns identified by TIGTA.

3B – Investigations (*\$90,681,000 from direct appropriations and \$400,000 from reimbursable programs*): While most Offices of Inspector General focus primarily on fraud, waste and abuse, TIGTA’s mission is more extensive. TIGTA has the statutory responsibility to protect the integrity of tax administration and to protect the ability of the IRS to collect revenue for the federal government. To accomplish this, TIGTA investigates allegations of criminal violations and administrative misconduct by IRS employees, protects the IRS against external attempts to corrupt tax administration, and ensures IRS employee safety and IRS data and infrastructure security. The following summaries highlight TIGTA’s investigative efforts in these three core areas:

Employee Integrity: The IRS’ ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes can be undermined by employee misconduct. Over 50 percent of TIGTA’s current investigations involve alleged employee misconduct. These investigations of employee misconduct allegations include extortion, theft, taxpayer abuse, false statements, and financial fraud. In addition, an integral part of the employee integrity program involves investigations of unauthorized access to confidential taxpayer records by IRS employees.

Employee and Infrastructure Security: In 1998, The President of the United States designated IRS operations as a critical infrastructure.² TIGTA meets the challenge of maintaining IRS employee and infrastructure security by conducting investigations in reaction to incidents in which IRS employees, facilities, and infrastructure are sabotaged, threatened, or assaulted. Potential threats to tax administration are identified by TIGTA's administration of a Criminal Intelligence Program that utilizes law enforcement and intelligence resources to proactively identify individuals and groups who may pose a threat to tax administration.

External Attempts to Corrupt Tax Administration: External attempts to corrupt tax administration impede the IRS' ability to collect revenue. TIGTA's investigations of external attempts to corrupt or interfere with tax administration include: bribes offered by taxpayers to compromise IRS employees; the use of fraudulent IRS documentation to commit crimes; taxpayer abuse by tax practitioners; impersonation of IRS employees; and the corruption of IRS programs through procurement fraud.

In FY 2009, OI expects major IRS programs to be highly at risk to corruption of federal tax administration and thus require intensified oversight. Particularly important to TIGTA are phishing scams that falsely depict e-mails from the IRS.³ Such schemes attempt to retrieve a user's Social Security number and banking information by replicating an official IRS seal and/or requesting information required for depositing tax refunds. Since November 2005, TIGTA and the IRS received a total of 32,576 (as of September 30, 2007) complaints or inquiries regarding these internet schemes. Oversight in this area is necessary to ensure that misuse of the IRS name, impersonation of an IRS employee, and identity theft incidents are resolved properly.

Congressional concern regarding the magnitude of uncollected revenue has prompted the IRS to intensify enforcement activities. If effective, heightened enforcement is likely to cause a rise in external threats to IRS employees and infrastructure. Both TIGTA's proactive and reactive initiatives are critical to mitigating such future risks. OI currently participates on the Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces and conducts criminal intelligence gathering to uncover and track external threats to tax administration from individuals, anti-government groups, and terrorists. From FY 2005 through the end of FY 2007, OI initiated 1,005 investigations of assaults and/or threats made against IRS employees, and 97 investigations of assaults and/or threats made against IRS facilities.

Current resources committed to addressing external security risks include six special agents working full-time and 32 special agents working part-time on domestic terrorism. The office also includes one intelligence analyst gathering information to protect against external threats. OI presently oversees security for the top 15 at-risk IRS locations, as identified by the IRS Mission Assurance Office. Proactive measures in this area are critical to preventing breaches of security and deterring threats in future years.

² *Presidential Decision Directive NSC-63.*

³ Phishing involves sending e-mails to users falsely claiming to be established, legitimate enterprises in order to solicit private information for the purpose of identity theft.

Investigative work in these three core areas is imperative for protecting the integrity of tax administration. The results of this work help ensure that the public has confidence in its dealings with the IRS, thereby promoting voluntary compliance with federal tax laws.

Other Resources: TIGTA receives \$400,000 in offsetting collections and reimbursements to support activity related to the Inspector General Academy and other activity conducted on behalf of the Department of the Treasury.

3.2.2 – Investigations Budget and Performance Plan

Investigations Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$79,368	\$82,686	\$83,427	\$87,574	\$90,681
Reimbursable Resources	\$1,783	\$711	\$627	\$400	\$400
Total Resources	\$81,151	\$83,397	\$84,054	\$87,974	\$91,081

Budget Activity Total	\$81,151	\$83,397	\$84,054	\$87,974	\$91,081
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Investigations Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percentage of Results from Investigative Activities (%) (Oe)	82.00%	79.00%	81.00%	76.00%	76.00%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: Examples of the types of results generated from investigative activities include: bribes offered by taxpayers to compromise IRS employees; manipulation of IRS systems and programs through the use of bogus liens and IRS financial reporting instruments; and impersonation of IRS officials. As of September 30, 2007, actual performance has exceeded expectations (actual performance was 81 percent, while the target was 73 percent). These results are indicative of TIGTA's continuous focus on quality investigative activities.

For detailed information about each performance measure, including definition, verification and validation, please go to:

<http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml>

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

TIGTA's human capital strategy is consistent with the goals, vision, and priorities of the Department. One of the major goals of the Department is to "be an organization that values its people." The objective associated with this goal is to "ensure a high-quality, diverse, and motivated workforce with the knowledge, skills, and abilities needed to produce quality products in an efficient and effective manner." To support this goal, TIGTA's performance management program differentiates levels of employee performance, incorporates TIGTA's strategic goals and objectives, and holds employees accountable for performance. During FY 2009, TIGTA will update its Strategic Human Capital Plan to support a revised TIGTA Strategic Plan.

In recent years, TIGTA's overall employee population has declined 12 percent from FY 2001 through FY 2006 (a decrease from 938 in FY 2001 to 825 at the end of FY 2006) and is expected to decline over the foreseeable future. In addition, approximately 38 percent of all TIGTA employees will be retirement eligible by September 30, 2011. More dramatic are the percentages of retirement eligibility in certain TIGTA occupations. Approximately 41.5 percent of GS-0511 auditors and GS-2210 information technology specialists, and 33 percent of TIGTA's GS-1811 criminal investigators will be retirement eligible by then. This threatens TIGTA's overall ability to effectively fulfill its core mission.

Labor reductions will also reduce TIGTA's enforcement capacity and circumscribe efforts to combat IRS employee misconduct and external threats to the security and integrity of IRS personnel and infrastructure. FTE losses further reduce opportunities to examine high-risk areas and thereby reduce financial benefits from audit recommendations and impact fewer taxpayer accounts. The loss would also require TIGTA to curtail, delay, and/or fail to initiate reviews of high-risk areas and/or eliminate entire programs.

TIGTA must also address critical staffing deficiencies in terms of having the right number of people with the right skills to accomplish its mission. Because of the IRS' modernization effort and its increasingly computerized operating systems and environment, TIGTA faces critical skill gaps. Auditors and criminal investigators with strong analytical skills and experience using business intelligence tools to identify fraud and other improprieties in IRS computer systems are needed.

To help address these challenges, in FY 2008 TIGTA will implement a bureau-wide electronic learning management system containing a skills assessment program that identifies the critical skills needed for each of TIGTA's major occupations and provides a means to assess resident skill levels. TIGTA will also develop a strategic recruitment program to fill critical vacancies and align future hiring in geographic areas where most of TIGTA's workload is located.

While the TIGTA workforce is not being supplemented by on-site contractors, most of the human resources, accounting, travel, and acquisitions work is outsourced to the Bureau of the Public Debt's Administrative Resource Center. Additionally, TIGTA is considering supplementing the federal workforce with contract support in the areas of physical security, telecommunications, and employee performance management policy.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments 1/							
Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted	FY 2007 Enacted	FY 2008 Likely Enacted	% Change from FY07 to FY08	FY 2009 Request	% Change from FY08 to FY09
		2/					
Subtotal, Major IT Investments		N/A	N/A	N/A	N/A	N/A	N/A
Performance and Results Information System (PARIS)	TIGTA: Audit and Investigations Activity	\$1,000	\$1,000	\$1,000	0.0%	\$1,000	0.0%
PARIS Property Module (PPM)	TIGTA: Audit and Investigations Activity	\$500	\$500	\$500	0.0%	\$500	0.0%
Non-Major IT Investments	TIGTA: Audit and Investigations Activity	\$1,500	\$1,500	\$1,500	0.0%	\$1,500	0.0%
TIGTA End User Systems and Services	TIGTA: Audit and Investigations Activity	\$2,450	\$2,450	\$8,000	226.5%	\$8,293	3.7%
Telecommunications Systems and Services	TIGTA: Audit and Investigations Activity	\$1,329	\$1,329	\$3,100	133.3%	\$3,300	6.5%
Data Center Systems and Services	TIGTA: Audit and Investigations Activity	\$267	\$267	\$1,000	274.5%	\$1,000	0.0%
IT Security	TIGTA: Audit and Investigations Activity			\$750		4/	
Infrastructure Investments	TIGTA: Audit and Investigations Activity	\$4,046	\$4,046	\$12,850	217.6%	\$12,593	-2.0%
				3/			
Consolidated Enterprise Content Management	TIGTA: Audit and Investigations Activity	\$0	\$0	\$0		\$129	
						5/	
Consolidated Identity Management	TIGTA: Audit and Investigations Activity	\$0	\$0	\$0		\$128	
						5/	
Enterprise Architecture	TIGTA: Audit and Investigations Activity	\$250	\$250	\$250	0.0%	\$250	0.0%
Total IT Investments	TIGTA: Audit and Investigations Activity	\$5,796	\$5,796	\$14,600	151.9%	\$14,600	0.0%

1/ This chart includes appropriated resources only, and may not reflect total project costs.
2/ This column reflects appropriated resources provided to a project in FY 2006 and any previous years.
3/ The \$8.8 million increase in Infrastructure from FY 2007 to FY 2008 is due to the inclusion of TIGTA costs which were previously not reflected.
4/ The \$750 thousand decrease reflects the impact of eliminating IT Security as a separate investment and reflecting those resources with End User and Telecommunication systems and services.
5/ The resources were realigned from End User systems and services to be reflected in the new Enterprise Content Management and Identity Management consolidated investments.

4B – Information Technology Strategy

The Office of Information Technology (OIT) provides a full suite of information technology products and services on behalf of TIGTA. All OIT activities are focused on providing effective and secure access to data sources that are critical to the successful completion of TIGTA's mission. OIT personnel routinely work with investigators and auditors, providing integrated support and/or data analysis services to foster the independence of TIGTA oversight and the integrity of its investigative and audit findings.

End User Systems and Services: OIT provides traditional end user systems services for all TIGTA employees. This includes the provisioning of personal computers, productivity software, electronic mail and other local area network services, such as network storage for effective data backup and recovery. OIT end user systems and services are based on a standardized tool suite for internal TIGTA business operations. This tool suite is augmented to provide specialized software tools that permit investigators and auditors to access and analyze data residing on a wide variety of IRS and other governmental information systems. OIT monitors these tools to ensure security and availability, and to determine when technology maintenance and refreshment activities are needed for effective protection of TIGTA-accessed data.

Telecommunications Systems and Services: OIT supports a wide area network (WAN) with access points throughout the United States and Puerto Rico in direct support of a geographically distributed investigative and audit workforce. The WAN provides adequate bandwidth for internal and external data transmissions while providing secure access to TIGTA resources, and other governmental computer networks and entities. For example, the WAN provides a secure interconnection between TIGTA and the IRS that is used for electronic data exchange as well as for cost-effective access to IRS information systems. The WAN also enables secure, remote access from alternative work locations, supporting an award-winning telework program. TIGTA also operates a Land Mobile Radio (LMR) system that permits investigators to safely conduct field operations with reliable wireless communication devices.

Data Center Systems and Services: OIT operates information systems at various offices. In accordance with the OIT Strategic Plan and continuing cost containment measures, OIT is consolidating information technology services, where feasible, into data center facilities. The consolidation effort is designed to increase information system and resource utilization, and eliminate unneeded redundancies while improving TIGTA's ability to support core investigative and audit activities. As part of a TIGTA data center, OIT provides extensive data analysis services in direct support of investigative and audit activities. For example, these services permit TIGTA to meet its responsibilities under the *Taxpayer Browsing Protection Act of 1997*. Specifically, the services are designed to analyze large volumes of data so that potential UNAX violations may be identified.

Enterprise Architecture: TIGTA operates several programs to comply with various legislative mandates and to improve the reliability, availability and effectiveness of its information technology. TIGTA's enterprise architecture initiative responds to the

Clinger-Cohen Act's requirement to align business practices with technology needs. By doing so, enterprise architecture will provide for better decision-making ability on information technology investment and related resource allocation decisions.

Identity Management: Although OIT prides itself on delivering a full set of IT support and services to TIGTA auditors and investigators, some administrative applications and services are better delivered at departmental and governmental levels. To support future authentication demands of those applications, TIGTA intends to manage the TIGTA aspect of identity management in concert with the IRS, the Department and the federal government. TIGTA currently maintains the production of its own non-Homeland Security Presidential Directive-12 (HSPD-12) credentials using HSPD-12 processes and procedures and will migrate to departmental HSPD-12 solutions as they become available.

Enterprise Content Management: TIGTA continues to use Microsoft Share Point as an internal content delivery service to our auditors and investigators. There are a number of other applications TIGTA uses that contain Enterprise Content Management (ECM) functionality, but the functionality is minor to the business processes the applications serve. As a result, these investments are not included in TIGTA ECM, but remain with their associated IT infrastructure. As the Department ECM initiative presents opportunities, TIGTA will evaluate transition to those document, record, content and tracking, and workflow management functions.

Non-Major Investments: OIT maintains two internal management information systems classified as non-major investments under Capital Planning and Investment Control guidelines. The Performance and Results Information System (PARIS) supports investigative compliance with the *Government Performance and Results Act (GPRA)*. The system facilitates GPRA compliance by collecting data needed to measure performance of investigative activities, specifically as it pertains to complaint management and investigating cases. The PARIS Property Module (PPM) is a custodial accounting system used to support the bureau's Personal Property Management Program. PPM is used to track capitalized and expensed assets used in support of investigative and audit activities and to track assets seized during law enforcement actions.

4.2 – PART Evaluation Table

Not applicable to TIGTA.