Inspector General for Tax Administration

Program Summary by Budget Activity
(Dollars in thousands)

<table>
<thead>
<tr>
<th>Appropriation</th>
<th>FY 2010 Enacted</th>
<th>FY 2011 Annualized CR Level</th>
<th>FY 2012 Request</th>
<th>Change FY10 to FY12</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>$57,421</td>
<td>$57,421</td>
<td>$62,357</td>
<td>$4,936</td>
<td>8.6%</td>
<td></td>
</tr>
<tr>
<td>Investigations</td>
<td>$94,579</td>
<td>$94,579</td>
<td>$95,474</td>
<td>$895</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td>Subtotal, Inspector General for Tax Administration</td>
<td>$152,000</td>
<td>$152,000</td>
<td>$157,831</td>
<td>$5,831</td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>Offsetting Collections - Reimbursables</td>
<td>$1,300</td>
<td>$1,300</td>
<td>$1,300</td>
<td>$0</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total Program Operating Level</td>
<td>$153,300</td>
<td>$153,300</td>
<td>$159,131</td>
<td>$5,831</td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>Direct FTE</td>
<td>835</td>
<td>835</td>
<td>864</td>
<td>29</td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td>Reimbursable FTE</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total FTE</td>
<td>838</td>
<td>838</td>
<td>867</td>
<td>29</td>
<td>3.5%</td>
<td></td>
</tr>
</tbody>
</table>

Summary

The FY 2012 President’s Budget request for Treasury Inspector General for Tax Administration (TIGTA) will be used to continue to provide critical audit, investigative, and inspection and evaluation services, ensuring the integrity of tax administration on behalf of the nation’s taxpayers. While there are a number of critical areas where TIGTA will provide oversight, highlights of TIGTA’s investigative and audit priorities include:

- Adapting to the Internal Revenue Service’s (IRS) continuously evolving operations and mitigating intensified risks associated with modernization, security, addressing the tax gap, and human capital challenges facing the IRS;
- 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 monetary benefits and enhancing IRS’s service to taxpayers;
- Informing the American people, Congress, and the Secretary of the Treasury of problems and progress made to resolve them; and.
- Overseeing IRS efforts to administer tax provisions of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Patient Protection and Affordable Care Act, and the Health Care and Education Reconciliation Act of 2010 (ACA).

TIGTA was created by Congress as a part of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). TIGTA’s audits, investigations, inspections and evaluations protect and promote the fair administration of the American tax system. TIGTA conducts audits that advise the American people, 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 improve IRS systems and operations, while maintaining fair and equitable treatment of taxpayers. 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’s Office of Inspections and Evaluations (I&E) provides responsive, timely, and cost-effective inspections and evaluations of IRS challenge areas. TIGTA’s oversight is essential to the efficiency and equity of the IRS’s tax administration system. TIGTA ensures that taxpayers can have confidence that the IRS collects more than $2 trillion in tax revenue in an effective and efficient manner.

Total resources required to support TIGTA activities for FY 2012 are $159,131,000, including $157,831,000 from direct appropriation and $1,300,000 from offsetting collections and reimbursable programs.

### TIGTA FY 2012 Budget Highlights

<table>
<thead>
<tr>
<th>Appropriation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010 Enacted</td>
<td>$152,000</td>
</tr>
<tr>
<td>FY 2011 Annualized CR Level</td>
<td>$152,000</td>
</tr>
</tbody>
</table>

**Changes to Base:**
- Adjustment to Reach Policy Level: +$2,266
- Adjustment to Reach FY 2011 President's Policy: +$2,266
- Maintaining Current Levels (MCLs): +$1,391
- Efficiencies, Savings & Base Reductions: ($3,474)

**Subtotal FY 2012 Changes to Base:** $183

**Total FY 2012 Base:** $152,183

**Program Changes:**
- Program Increases: +$5,648
- Oversight of IRS Implementation of the Affordable Care Act: +$5,600
- CGIIE Payment: +$48

**Subtotal FY 2012 Program Changes:** +$5,648

**Total FY 2012 Request:** $157,831

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### FY 2012 Budget Adjustments

**FY 2011 Annualized CR Level**
The FY 2011 Annualized CR Level for TIGTA is $152,000,000.

**Adjustment to Reach Policy Level**
*Adjustment to Reach FY 2011 President’s Policy* +$2,266,000 / +0 FTE
Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President’s Policy Level. The President’s Policy Level is equal to the FY 2011 President’s Budget as adjusted for the proposed pay freeze.

**Maintaining Current Levels (MCLs)**
*Maintaining Current Levels (MCLs)* +$1,391,000 / +0 FTE
Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

**Efficiencies, Savings & Base Reductions**
*Program Reductions and Efficiencies* - $3,474,000 / +0 FTE
TIGTA continuously seeks to reduce programs that are non-critical and find efficiencies in its operations. Reaching a savings target of $3,474,000 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 would have the smallest impact on mission. 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. Further savings will be realized in data center and certification and accreditation consolidation.
Program Increases

Oversight of IRS Implementation of the Affordable Care Act +$5,600,000 / +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, assure citizens about the integrity of the program, and give lawmakers the assurance that the program functions properly. TIGTA has often paved the way for new initiatives that are administered through the tax code. Funding will support 23 auditors, five investigators, and one inspections and evaluations specialist. TIGTA's work requires close coordination among its Audit, Investigations, 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.

CIGIE Payment +$48,000 / +0 FTE

Funds for Council of Inspectors General on Integrity and Efficiency (CIGIE) will specifically 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. This increase raises TIGTA’s CIGIE contribution to $380,000.

Explanation of Budget Activities

Salaries and Expenses

Audit ($62,357,000 from direct appropriations, and $551,000 from reimbursable programs)

The Office of Audit’s (OA) mission is to provide comprehensive coverage and oversight of all aspects of the IRS’s daily operations. Audits not only focus on the economy and efficiency of IRS functions but also ensure that taxpayers’ rights are protected and the taxing public is adequately served. In FY 2010, audit reports produced potential financial benefits of approximately $11.46 billion, and potentially impacted approximately 2.03 million taxpayer accounts in areas such as taxpayer burden, rights and entitlements, taxpayer privacy and security, protection/use 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 strikes a balance between 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’s modernization efforts, its major management challenges, its progress in achieving its strategic goals, as well as Congressional and other stakeholder requests for audit coverage.

Investigations ($95,474,000 from direct appropriations, and $749,000 from reimbursable programs)

While most Offices of Inspectors 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:** IRS employee misconduct can hinder the IRS’s ability to collect revenue for the Federal Government. Fifty percent of TIGTA’s current investigations involve alleged employee misconduct. In addition to unauthorized access (UNAX) investigations, employee misconduct investigations include allegations of extortion, theft, false statements, and financial fraud. TIGTA also administers a proactive integrity program to help detect IRS employees who might be committing fraud and other misconduct. During FY 2010, TIGTA initiated 70 proactive investigative initiatives.

**Employee and Infrastructure Security:** Congressional concern regarding the magnitude of uncollected revenue has prompted the IRS to intensify enforcement activities. Heightened enforcement is likely to cause a rise in external threats to IRS employees and infrastructure. Both TIGTA’s proactive and reactive investigations are critical to mitigating future risks. TIGTA maintains IRS employee and infrastructure security by conducting investigations into incidents that threaten IRS employees, facilities, and infrastructure. TIGTA’s highest priority complaints involve threats and assaults against IRS employees. TIGTA works aggressively and takes swift action to protect IRS employees, to include the providing of armed escorts. In October 2008, the Inspector General Reform Act of 2008 was signed into law, which allows TIGTA to provide physical security to protect IRS employees against external threats. TIGTA also operates a Criminal Intelligence Program that develops and facilitates pertinent information regarding potential threats to IRS employees and operations. This program includes participation in the FBI sponsored Joint Terrorism Task Forces nationwide. In addition, TIGTA has a System Intrusion and Network Attack Response Team to defend against hackers who attempt to compromise the data integrity of taxpayer information stored in IRS computer systems. In FY 2010, OI closed 1,425 investigations of assaults and/or threats made against IRS employees and facilities.

**External Attempts to Corrupt Tax Administration:** TIGTA is statutorily mandated to investigate external attempts to corrupt tax administration, which includes criminal misconduct by non-employees, such as, impersonation of IRS employees, interference with the administration of internal revenue laws, bribery, misuse of Treasury names, symbols, etc., contract fraud, and tax practitioner fraud relating to thefts of taxpayer remittances and refunds.

**Legislative Proposals**

TIGTA proposes eliminating certain reviews conducted to comply with reporting requirements in the IRS Restructuring and Reform Act of 1998. These statutory reviews yield little in the way of improving performance measures and are of relatively low value. TIGTA would prefer to redirect resources applied to these reviews to conducting high-risk audits. TIGTA recommends 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 Section 7803 (d)(1)(G).
• The requirement to review and certify annually that IRS is complying with the requirements of 26 U.S.C. section 6103(e)(8) regarding information on joint filers.

• The requirement to annually report on the IRS’s compliance with Internal Revenue Code Sections 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.

<table>
<thead>
<tr>
<th>TIGTA Performance by Budget Activity</th>
<th>FY 2008 Actual</th>
<th>FY 2009 Actual</th>
<th>FY 2010 Actual</th>
<th>FY 2011 Target</th>
<th>FY 2012 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceptional accountability and transparency</td>
<td>Percentage of Audit Products Delivered when Promised to Stakeholders (Oe)</td>
<td>65.0</td>
<td>81.0</td>
<td>76.0</td>
<td>65.0</td>
</tr>
<tr>
<td>Exceptional accountability and transparency</td>
<td>Percentage of Recommendations Made that Have Been Implemented (Oe)</td>
<td>85.0</td>
<td>91.0</td>
<td>95.0</td>
<td>83.0</td>
</tr>
<tr>
<td>Exceptional accountability and transparency</td>
<td>Percentage of Results from Investigative Activities (Oe)</td>
<td>78.0</td>
<td>83.0</td>
<td>86.0</td>
<td>79.0</td>
</tr>
</tbody>
</table>

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

Description of Performance

• Issued 135 audit, inspection, and evaluation reports, identifying approximately $11.46 billion in potential financial benefits (i.e., costs savings, increased or protected revenue, taxpayer rights and entitlements, and inefficient use of resources).

• Closed 86 percent of the 3,743 final closed investigations which generated results, including 1,635 cases of employee misconduct referred to the IRS for action and 235 cases accepted for prosecution.

• Note that FY 2011 performance targets were reduced to FY 2010 levels to align performance targets and funding levels based on FY 2010.