

Inspector General for Tax Administration

Program Summary by Budget Activity

(Dollars in thousands)

| Appropriation | FY 2009 | | FY 2010 | FY 2011 | | |
|---|----------------|------------------|------------------|------------------|----------------|-------------|
| | ARRA | Enacted | Enacted | Request | \$ Change | % Change |
| Audit | \$5,600 | \$55,186 | \$57,421 | \$58,725 | \$1,304 | 2.3% |
| Investigations | \$1,400 | \$90,897 | \$94,579 | \$96,727 | \$2,148 | 2.3% |
| Subtotal, Inspector General for Tax Administration | \$7,000 | \$146,083 | \$152,000 | \$155,452 | \$3,452 | 2.3% |
| Offsetting Collections - Reimbursables | \$0 | \$900 | \$1,300 | \$1,300 | \$0 | - |
| Total Program Operating Level | \$7,000 | \$146,983 | \$153,300 | \$156,752 | \$3,452 | 2.3% |

Explanation of Request

The FY 2011 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 implement the 56 tax provisions of the American Recovery and Reinvestment Act of 2009.

Total resources required in FY 2011 to support TIGTA's mission are \$156,752,000, including \$155,452,000 from direct appropriations, and approximately \$1,300,000 from reimbursable agreements.

Purpose of Program

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.

TIGTA FY 2011 Budget Highlights

(Dollars in thousands)

| Appropriation | Amount |
|-------------------------------------|----------------|
| FY 2010 Enacted | 152,000 |
| Changes to Base: | |
| Maintaining Current Levels (MCLs): | \$2,942 |
| FERS % Change | 46 |
| Non-pay Inflation Adjustment | 343 |
| Pay Annualization | 636 |
| Pay Inflation Adjustment | 1,917 |
| Efficiencies Savings: | (\$276) |
| Procurement Savings | (276) |
| Subtotal FY 2011 Changes to Base | \$2,666 |
| Total FY 2011 Base | 154,666 |
| Program Changes: | |
| Program Increases: | \$786 |
| CIGIE Fees | 332 |
| Increase Related to IRS Growth | 454 |
| Subtotal FY 2011 Program Changes | \$786 |
| Total FY 2011 Budget Request | 155,452 |

FY 2011 Budget Adjustments

FY 2010 Enacted

The FY 2010 enacted direct appropriation for TIGTA is \$152,000,000.

Maintaining Current Levels (MCLs)

Adjustments Necessary to Maintain Current Levels +\$2,942,000 / +0 FTE

Funds are requested for: FERS % Change of +\$46,000; non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of \$343,000; FY 2011 cost of the January 2010 pay increase of \$636,000; and proposed January 2011 pay raise of \$1,917,000.

Efficiencies Savings

Procurement Savings -\$276,000 / +0 FTE
TIGTA continues to work with procurement staff and vendors to identify procurement savings without compromising program quality.

Program Increases

CIGIE Fees +\$332,000 / +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.

Increase Related to IRS Growth +\$454,000 / +0 FTE

Since TIGTA is charged with overseeing the IRS, increasing the size and workload of the IRS generates additional work for TIGTA. Just as the IRS will need additional agents and specialists to accomplish their work, TIGTA will use the FY 2011 program increase to enhance critical oversight responsibilities. In addition, the Administration is placing a renewed emphasis on addressing illegal overseas tax evasion and closing tax loopholes and make it more profitable for companies to create jobs in the United States. The \$454,000 program increase would help fund this effort.

Explanation of Budget Activities

Salaries and Expenses

Audit (\$58,725,000 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

taxpaying public is adequately served. In FY 2009, audit reports produced potential financial benefits of approximately \$14.7 billion, and potentially impacted approximately 23 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 (\$96,727,000 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. From October 1, 2008 to September 30, 2009, TIGTA initiated 41 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. From October 2008 through September 2009, OI closed 331 investigations of assaults and/or threats made against IRS employees and facilities.

misuse of Treasury names, symbols, etc., contract fraud, and tax practitioner fraud relating to thefts of taxpayer remittances and refunds.

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,

Legislative Proposals

TIGTA has no legislative proposals for FY 2011.

TIGTA Performance by Budget Activity

| Budget Activity | Performance Measure | FY 2007 | FY 2008 | FY 2009 | | | FY 2010 | FY 2011 |
|-----------------|---|---------|---------|---------|--------|-------------|---------|---------|
| | | Actual | Actual | Target | Actual | Target Met? | Target | Target |
| Audit | Percentage of Audit Products Delivered When Promised to Stakeholders (Oe) | 68 | 65 | 65 | 81 | Y | 65 | 65 |
| Audit | Percentage of Recommendations Made That Have Been Implemented (Oe) | 90 | 84^ | 83 | 91 | Y | 83 | 83 |
| Investigations | Percentage of Results from Investigative Activities (Oe) | 81 | 78 | 78 | 83 | Y | 79 | 79 |

Key: Oe - Outcome Measure, E - Efficiency Measure, and Ot - Output/Workload Measure
 ^This number has been updated since the Fiscal Year 2010 Budget in Brief.

Description of Performance

- Issued 142 audit, inspection, and evaluation reports, identifying approximately \$14.7 billion in potential financial benefits (i.e., costs savings, increased or protected revenue, reliability of management information, taxpayer rights and entitlements, and inefficient use of resources).

- Closed 83 percent of the 3,325 final closed investigations which generated results, including 1,427 cases of employee misconduct referred for action and 171 cases accepted for criminal prosecution with final legal action.