

United States General Accounting Office

GAO

Report to the Honorable  
Doug Barnard, Jr., Chairman,  
Subcommittee on Commerce, Consumer,  
and Monetary Affairs, House Committee  
on Government Operations

November 1988

# TAX ADMINISTRATION

## IRS' Data on Its Investigations of Employee Misconduct







United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-232594

November 18, 1988

The Honorable Doug Barnard, Jr.  
Chairman, Subcommittee on Commerce, Consumer,  
and Monetary Affairs  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

This report responds to your August 3, 1988, request that we analyze data that you received from the Internal Revenue Service (IRS) on its investigations of alleged misconduct (e.g., bribery, embezzlement) by its employees. The data categorized the nature and results of 3,861 investigations of alleged employee misconduct that IRS' Internal Security Division had completed since 1984. IRS extracted the data from the Internal Security Management Information System (ISMIS). You specifically wanted our analyses to provide a broad perspective on the types of employees and violations being investigated and the types of punishments being given to these employees for these violations.

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## Results in Brief

On the basis of our analysis of the ISMIS data, we do not believe that ISMIS data can be used to gain a broad perspective of IRS' investigations into alleged employee misconduct. We identified extensive coding errors due to invalid and missing codes. Invalid codes are codes reflected in the ISMIS data but not listed among Internal Security's prescribed codes. Missing codes involve those characteristics, such as the disposition of the closed cases (e.g., employee cleared, suspended, prosecuted), that should have been, but were not, coded in the ISMIS data.

Internal Security officials said that the data contain coding errors because ISMIS does not contain sufficient data validity checks. They also said that they plan to replace ISMIS with a system that has better controls—i.e., data validity checks that reject invalid or incomplete data.

The extensive errors and inadequate validity checks raise serious questions about the validity and reliability of all ISMIS data. Thus, we do not know whether the data for which we did not find errors accurately describe the nature and results of IRS' investigations of alleged employee misconduct.

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## Background

IRS' Internal Security Division, among other activities, investigates allegations of employee misconduct through either special inquiry or conduct cases. A special inquiry case is opened when an investigator lacks sufficient information on the alleged violations or on the accused employee, or when an investigator lacks confidence in the reliability of the person making an allegation. Once an investigator compiles sufficient information about the specific violations and employees involved and confirms the reliability of the allegation, the investigator opens a conduct case. If the investigator does not compile sufficient information on these three case characteristics, the special inquiry is closed with no further action taken.

If the investigator has sufficient information when the allegation is made, the investigator immediately opens a conduct case. As a result of conduct cases, IRS either (1) clears the investigated employee of the alleged violation; (2) takes administrative action (e.g., suspension) against this employee; and/or (3) recommends criminal prosecution of this employee.

On August 10, 1988, IRS provided the Subcommittee with ISMIS data on 3,861 investigations closed since 1984. These investigations included 1,228 special inquiry and 2,633 conduct cases. The most current ISMIS data available were through December 1987. Of the 83 characteristics of investigations in ISMIS, the Subcommittee asked for and received 20 characteristics<sup>1</sup> on the special inquiry<sup>2</sup> and conduct cases.

ISMIS was developed in 1977 to record and manage Internal Security investigations. The investigators, usually in field offices, enter prescribed, numeric codes onto standardized forms to describe characteristics of each case (e.g., grade of investigated employee, type of alleged violation). These coded forms are reviewed and forwarded to Internal Security's National Office. From there, the forms are sent to a contractor who keypunches the coded data into ISMIS and generates ISMIS reports. These reports were designed to help make operational decisions about Internal Security's budgets, assignments, and plans.

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<sup>1</sup>The 20 characteristics are: case number, case category, employee grade, employee office, employee position, initial primary violation, source of case, final primary violation, primary administrative action, criminal referral status, criminal prosecution result, length of incarceration, length of suspended sentence, amount of fine, hours charged to the case this year, hours charged to the case since initiation, days spent on the case from initiation to closing, inspector identification number, inspector post-of-duty, and employee district.

<sup>2</sup>Special inquiry cases had just 14 of the characteristics, since only conduct cases have characteristics dealing with administrative and criminal results.

## Objectives, Scope, and Methodology

Our objective was to analyze the ISMIS data to provide the Subcommittee with a broad perspective on the nature and results of IRS' investigations of alleged employee misconduct. Because Internal Security officials responsible for ISMIS told us the data could be coded incorrectly, we also attempted to identify the extent to which coding errors existed. To identify the extent of coding errors, we compared the codes for ISMIS data provided to the Subcommittee with codes that investigators and keypunchers are instructed to use when entering data into ISMIS. We collected documentation on the codes that should be used to enter ISMIS data and the processes for collecting and verifying the data. We interviewed these Internal Security officials on these processes and possible reasons for coding errors.

Because IRS initially provided the requested data in a printout, we had to keypunch the data and verify it before starting our computer analyses. Since we did not have authority to access taxpayer information on this assignment and the Subcommittee had an urgent need for our analyses, we were not able to verify, by reviewing investigative case files or other independent sources, the accuracy of the ISMIS data for which we did not find errors.

We did our work during August and September of 1988 at the IRS National Office, in accordance with generally accepted government auditing standards.

## Extensive Coding Errors in Investigative Data

Throughout the ISMIS data, we found coding errors so extensive that the data has limited value for characterizing the nature and results of IRS' investigations. For the nature of the investigations, we found invalid or missing codes on the

- locations and offices of the employees who allegedly committed violations in over 40 percent of the 1,228 special inquiry cases; and
- basic case characteristics (e.g., source of the allegation, information about the investigated employee, type of violation) in 17 percent of the 2,633 conduct cases.

For the results of the 2,633 conduct cases, we found more invalid or missing codes—especially as the action taken to close the cases became more severe. For example, the ISMIS data did not accurately or completely show

- administrative actions that IRS took against the investigated employees (e.g., clearance, suspension, removal) in 29 percent of the cases;
- IRS' decisions on referring cases for criminal prosecution in 57 percent of the cases; and
- results of criminal prosecution (e.g., guilty, case dismissed) in 83 percent of the cases.

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## IRS Plans to Correct Data Validity Problems

Internal Security officials explained that ISMIS does not contain sufficient validity checks to ensure that accurate and complete data are being entered into the system by the investigator or by the contractor that Internal Security uses to maintain ISMIS. That is, ISMIS does not contain controls to ensure that all required data elements are inputted and that only prescribed codes are used to input the data into the system. Also, ISMIS does not have checks to detect illogical codes like those indicating that an investigated employee was cleared by IRS, but also prosecuted for the same alleged violation. While these officials knew that ISMIS had incomplete and inaccurate data, they said that individual investigative case files would have to be reviewed, and the responsible investigators would have to be interviewed to resolve all data problems.

Internal Security officials said that they have been trying to replace ISMIS for several years to, among other things, build validity checks into the new system so that incomplete or illogical characteristics will not be accepted. They said that this new system will be implemented during fiscal year 1989. An Internal Security official pointed out that these problems with the validity of the data and delays in keypunching the data have deterred IRS from using the ISMIS data to make operational decisions about its budgets, assignments, and plans. We believe that these problems also raise questions on whether the data for which we did not find errors accurately depict the nature and results of the investigations of alleged employee misconduct.

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We discussed the coding errors in the ISMIS data furnished to the Subcommittee with the IRS officials responsible for the data, and we have included their comments where appropriate. In general, they acknowledged that ISMIS data have coding errors and noted that they have been trying to replace ISMIS with a system that will not accept invalid codes.

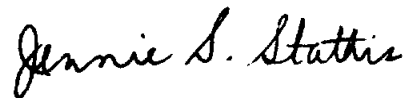
As arranged with the Subcommittee, unless you publicly announce its results earlier, we plan no further distribution of this report until 30 days from the date of issuance. After this time, we will send copies of

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the report to the Commissioner of Internal Revenue and other interested parties and will make copies available to others upon request.

Please contact Mr. Mark Gillen on 272-7904 if you or your staff have any questions concerning the report.

Sincerely yours,

A handwritten signature in cursive script that reads "Jennie S. Stathis".

Jennie S. Stathis  
Associate Director





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