



## Treasury Inspector General for Tax Administration Office of Audit

### **EMPLOYEES ARE PROVIDED SUFFICIENT INFORMATION ON THEIR TAX RESPONSIBILITIES, BUT ADDITIONAL ACTIONS ARE NEEDED TO DETECT ALL NONCOMPLIANT EMPLOYEES**

Issued on May 5, 2011

## Highlights

Highlights of Report Number: 2011-10-047 to the Internal Revenue Service Human Capital Officer.

### **IMPACT ON TAXPAYERS**

The Internal Revenue Service (IRS) redesigned and centralized the Employee Tax Compliance (ETC) Program in Calendar Year 1995 to ensure that employees are held to a high standard of compliance with the tax laws. The IRS has developed processes to educate employees on their tax responsibilities and detect employees who may not have timely filed or timely paid their taxes; however, not all potential employee misconduct concerning noncompliance with tax laws is being assessed, and additional analyses are needed to periodically reevaluate the direction of the Program. To maintain public confidence in the agency trusted with administering the Nation's tax system, the IRS must ensure that potential misconduct concerning noncompliance with tax laws is identified and addressed.

### **WHY TIGTA DID THE AUDIT**

The overall objective of our audit was to determine whether controls in the ETC Program ensure that IRS employees are fulfilling their tax obligations and employee tax compliance cases are being appropriately identified and resolved.

### **WHAT TIGTA FOUND**

The IRS Human Capital Office has taken action to ensure education is available to IRS employees on their tax responsibilities and has ensured cases of noncompliance with tax laws are consistently resolved. The IRS has also developed a computer application to detect employees who may not have timely filed or timely paid their taxes.

Although the IRS developed the computer application, TIGTA determined that the application was not detecting all potential noncompliance. TIGTA independently reviewed IRS computer files over a 2-year period and identified 133 employees who were potentially noncompliant with their taxes and were not detected by

the ETC computer application. As a result, no action was taken by the IRS to analyze and address potential employee misconduct for noncompliance with tax laws.

In addition, TIGTA determined the IRS significantly reduced the focus of the ETC Program from its original mission and goals partially based on a study it conducted showing that IRS employees were more compliant compared to the general taxpaying public. While TIGTA understands the IRS's decision to use resources as efficiently as possible, the IRS should document this change and conduct three additional analyses to periodically reevaluate the Program's direction to ensure proper oversight of employees' compliance with their tax obligations.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS Human Capital Officer work with computer programmers to correct the ETC computer application and work additional employee cases identified by TIGTA. The IRS Human Capital Officer should also revise the goals and mission of the ETC Program to align with how it is currently operating and periodically conduct trend analyses of employee tax noncompliance.

In response, the IRS agreed to review its computer application, work additional cases, and revise the goals and mission of the ETC Program. However, the IRS stated it had no plans to develop new noncompliance detection efforts specifically for IRS employees. TIGTA believes it would be prudent for the IRS to conduct trend analyses to assist in evaluating employee noncompliance trends.

### **READ THE FULL REPORT**

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2011reports/201110047fr.pdf>

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