



## Treasury Inspector General for Tax Administration Office of Audit

### THE EMPLOYEE PLANS FUNCTION HAS IMPROVED THE PROCESS FOR SELECTING RETIREMENT PLANS FOR EXAMINATION

Issued on May 10, 2011

## Highlights

Highlights of Report Number: 2011-10-050 to the Acting Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

### IMPACT ON TAXPAYERS

The primary objective of Employee Plans function examinations is to determine if retirement plans are operating in accordance with the tax-exempt qualification provisions of the Internal Revenue Code and within the terms of the plan document. If a retirement plan is not in compliance, the Employee Plans function works with retirement plan officials to resolve examination issues and bring the retirement plan back into compliance. The Employee Plans function has improved its ability to select examinations that identify noncompliance, as evidenced by an increase in the percentage of examinations where noncompliance with the Internal Revenue Code has been detected. Ensuring that plans comply with all applicable statutes and regulations provides plan participants with greater assurance that promised benefits will be available upon retirement.

### WHY TIGTA DID THE AUDIT

TIGTA initiated this audit in response to a request from the Internal Revenue Service to review the Employee Plans function's selection methodology for risk-based targeted examinations. Our overall objective was to determine whether the Employee Plans function's processes for selecting examination cases allow for emerging issues to be considered and take into account the risk of noncompliance for the retirement plan universe.

### WHAT TIGTA FOUND

TIGTA determined that the Employee Plans function's methods for selecting examinations have evolved over the years and examinations are now identifying a larger percentage of retirement plans that are noncompliant. Identifying noncompliance through the examination program ensures that Employee Plans function resources are being used wisely, and reduces the burden on plan sponsors

and administrators by focusing on retirement plans most likely to have compliance issues.

The Employee Plans function has accomplished this improvement by developing methods for selecting examination cases that allow for emerging issues to be considered, while taking into account the risk of noncompliance for the retirement plan universe. For example, the most productive examinations (those that identify retirement plans that are noncompliant) have been the result of special projects, abusive transactions, and referrals. Over the past five years, these three areas have consistently identified the highest degree of noncompliance. In addition, the Employee Plans function's risk-based examinations are becoming more productive based on historical results of examinations from particular market segments.

### WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. Tax Exempt and Government Entities Division management reviewed the report before it was issued and offered clarifying comments and suggestions, which have been taken into account.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2011reports/201110050fr.pdf>.