



## Treasury Inspector General for Tax Administration Office of Audit

### PROGRESS HAS BEEN MADE TO REENGINEER THE EXAMINATION PROGRAM, BUT ADDITIONAL IMPROVEMENTS ARE NEEDED TO REDUCE TAXPAYER BURDEN

Final Report issued on February 18, 2011

## Highlights

Highlights of Reference Number: 2011-30-016 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Correspondence and Discretionary Examination Program (hereafter referred to as the Program) conducts examinations exclusively by mail to reduce Internal Revenue Service (IRS) operational costs and minimize the burden on taxpayers. However, taxpayers have expressed concerns with the length of the examination process, the lack of consideration given to their information sent to the IRS, and treatment by IRS employees. While the IRS is reengineering the examination process, taxpayer burden continues to exist.

### WHY TIGTA DID THE AUDIT

This audit was initiated at the IRS Oversight Board's request for TIGTA to assess whether recent IRS efforts to identify weaknesses and take actions in its Program actually improved results. Our overall objective was to determine whether the IRS's reengineered Program resulted in a more responsive and less burdensome process for taxpayers.

### WHAT TIGTA FOUND

Steps have been taken to reengineer the Program and improve employee compliance with Program guidelines, which could ultimately lessen taxpayer burden and increase taxpayer rights and entitlements. TIGTA selected and reviewed two samples to evaluate employee performance before and after the Program implemented a new mail model process at one processing site. Our results showed that after implementing the process, the Program reflected significant improvements in several attributes used to measure performance. Despite the progress, results from our statistical sample of cases where taxpayers agreed to the additional tax assessments showed 28 of 62 cases contained errors. The majority of these errors related to employees untimely closing cases.

Our analyses of another statistical and two judgmental samples of cases where the taxpayer did not agree with the additional assessment showed Program employees did not always consider the taxpayer's correspondence before closing the case.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure all Program employees 1) follow mail processing guidelines when working Program cases until the mail model process is fully implemented in all sites and 2) follow Program guidelines for handling, responding to, and considering taxpayer correspondence.

Although the IRS agreed with our recommendations, it did not agree with our reported outcome measure. Specifically, the IRS stated many of the errors do not impact taxpayer rights and entitlements because the absence of a date stamp on a taxpayer's correspondence would not constitute burden to the taxpayer. In addition, the IRS expressed concerns with TIGTA's use of the word "error" because it could lead readers to believe that an incorrect conclusion was reached during the examination.

Our audit findings and recommendations address results that showed IRS employees did not adhere to established procedures and/or guidelines when processing correspondence taxpayers submit for examinations of their tax returns. For example, when date stamps, which are applied to assist employees' control of documents received from taxpayers, are missing, the IRS cannot ensure a timely response to the taxpayer. When employees do not adhere to IRS guidelines and procedures, it is simply an error.

TIGTA continues to believe that when these errors occur, taxpayers are at risk of not receiving their rights, entitlements, and protection of due process when they question the accuracy of tax liabilities resulting from Program examinations. The IRS's guidelines and procedures are designed to ensure fair and equitable treatment for all taxpayers and to control and monitor employee work. It is unclear to us why the IRS disagrees with our outcome measure when it agreed to take corrective actions for all of our recommendations.

### 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/201130016fr.pdf>.

Email Address: [TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov)

Phone Number: 202-622-6500

Web Site: <http://www.tigta.gov>