



*Actions Are Needed to Ensure Audit Results
Post Timely and Accurately to Taxpayer
Accounts*

September 7, 2012

Reference Number: 2012-30-097

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax Return/Return Information

2(f) = Risk Circumvention of Agency Regulation or Statute

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HIGHLIGHTS

ACTIONS ARE NEEDED TO ENSURE AUDIT RESULTS POST TIMELY AND ACCURATELY TO TAXPAYER ACCOUNTS

Highlights

**Final Report issued on
September 7, 2012**

Highlights of Reference Number: 2012-30-097 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

TIGTA identified several control issues that adversely affected the ability of the Small Business/Self-Employed Division to timely and accurately post audit results to taxpayer accounts and protect the statutory period for assessing tax deficiencies. These issues increased the risk of 1) allowing noncompliant taxpayers to avoid paying taxes they otherwise owe, 2) creating unnecessary burden on taxpayers by posting inaccurate tax assessments, and 3) compromising the integrity of the tax system by issuing erroneous tax refunds.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the Centralized Case Processing function controls at the Memphis, Tennessee, Campus are ensuring that Small Business/Self-Employed Division Field audits are timely and accurately processed, and the statutory period for assessing taxes is protected. The review is part of our Fiscal Year 2012 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

Despite layers of management controls, steps need to be taken to ensure that returns with pending statute expiration dates are protected and audit results are timely and accurately posted to accounts. TIGTA analyzed Fiscal Year 2011 audit closures and found 229 audits with deficiencies totaling \$4.9 million

that had soon to expire assessment statute expiration dates that were not controlled in accordance with established procedures. TIGTA also found that procedures were not followed to expedite the processing of 891 of 1,377 large dollar audits so actions could be initiated to collect the \$100,000 or more that the taxpayers agreed they owed. This, in turn, cost the Federal Government approximately \$324,000 of lost interest revenue. In addition, TIGTA identified three audits with deficiencies totaling approximately \$134,000 that were incorrectly posted to taxpayer accounts ***1***
*****1*****
*****1*****.

Further, 80 employees had access to sensitive command code combinations that gave them capabilities such as inputting adjustments to taxpayer accounts and changing key taxpayer account information, including addresses. TIGTA found that the IRS does not have adequate controls over the employees' access to and use of such combinations. As a result, there will continue to be a risk of potentially fraudulent transactions occurring and going undetected.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Campus Reporting Compliance, Small Business/Self-Employed Division, establish procedures that ensure all audits entering the Centralized Case Processing operation with short statute expiration dates and large dollar deficiencies are timely and accurately assigned and processed in accordance with applicable procedures. Procedures also need to be established that ensure accurate information is posted to taxpayer accounts and employees' use of sensitive command code combinations is monitored.

In their response to the report, IRS management agreed with five recommendations and partially agreed with one recommendation. IRS management stated that they plan to take or have already taken corrective actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 7, 2012

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

FROM: Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Actions Are Needed to Ensure Audit Results Post
Timely and Accurately to Taxpayer Accounts (Audit # 201130048)

This report presents the results of our review to determine whether the Memphis, Tennessee, Campus Centralized Case Processing function's controls are ensuring that Small Business/Self-Employed Division audits are timely and accurately processed, and the statutory period for assessing taxes is protected. The review is part of our Fiscal Year 2012 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix IX.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Frank Dunleavy, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (213) 894-4470 (Ext. 128).



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Abbreviations

AIMS	Audit Information Management System
CCP	Centralized Case Processing
ERCS	Examination Returns Control System
FTE	Full-Time Equivalent
FY	Fiscal Year
IDRS	Integrated Data Retrieval System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration



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Background

The Small Business/Self-Employed (SB/SE) Division has approximately 26,000 employees who serve 57 million taxpayers, which is roughly one-third of the overall taxpayer base. The SB/SE Division's mission is to protect the public interest by applying the tax law with integrity and fairness to all and to provide its customers top-quality service by educating and informing them of their tax obligations, developing educational products and services, and helping them understand and comply with applicable laws.

In January 2004, the Internal Revenue Service (IRS) established the Centralized Case Processing (CCP) – Examination¹ operation, which is part of the SB/SE Division's Campus Compliance Services function. The CCP operation is responsible for performing critical services for audit groups from the SB/SE Division Examination function and the Large Business and International Division Examination Program. These services focus on timely and accurately recording and processing closed audits on IRS systems, including posting a variety of adjustments and assessment information to the Master File so that revenue is protected and undue burden is not placed on taxpayers. Our review focused on the CCP operation site at the Memphis, Tennessee, Campus (hereafter referred to as the Memphis CCP function), which is responsible for providing audit closure support for the seven SB/SE Division Area Offices (Field).

The CCP operation replaced the once existing Field Case Processing function, which the Treasury Inspector General for Tax Administration (TIGTA) reported on in September 2001.² At that time, the TIGTA reported that 1) reinforcement and reemphasis of the procedures were needed for screening, identifying, and tracking large dollar agreed audits for timely processing and 2) more consistent procedures during the evaluations of the Case Processing functions were needed between offices to ensure more uniformity and better management information. IRS management agreed with the recommendations and reported that it planned to take corrective actions. Although the IRS centralized the Case Processing function, which addressed the second issue, we found similar findings related to the large dollar agreed audits during this review, which are discussed later in our report.

When audit groups from the Field complete their audits, they ship the audit files to the Memphis CCP function for final closure and update the status of each audit to "in-transit to CCP" in the IRS's Examination Returns Control System (ERCS). The Field and the Memphis CCP function are both responsible for monitoring whether the audit files are timely received by

¹ See Appendix VIII for a glossary of terms.

² TIGTA, Ref. No. 2001-30-154, *The Case Processing – Examination Support Processing Function Is Timely Performing Many of Its Responsibilities* (Sept. 2001).



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the Memphis CCP function. Upon receipt, the Memphis CCP function reviews the instructions provided by the Field on the Form 3198, *Special Handling Notice for Examination Case Processing*,³ to determine how to process the audit closure and whether it should be expedited.

As noted in Figure 1, for the past two fiscal years, the Memphis CCP function has been responsible for closing more than 320,000 audits annually.⁴ Although the number of audit closures has increased during the last few fiscal years, the number of allocated full-time equivalents (FTE) responsible for assisting with these audits has steadily decreased. Specifically, the FTE allocation has changed from 166 in Fiscal Year (FY) 2010 to 151 during the first quarter in FY 2012, a decrease of 9 percent.

To ensure audit results are posted timely, the IRS designated certain time periods (metrics) for closing audits. These metrics depend on the priority and special features associated with each audit. The Memphis CCP function monitors the audits that were not closed within the designated metrics by using weekly generated reports. Although these reports provide a snapshot of the number of audits that were not closed within the designated metrics, the Memphis CCP function's overall performance, on an aggregate level, such as a monthly, quarterly, or annual perspective, is not routinely monitored. For example, the only aggregate level analysis performed during the last three fiscal years was limited to analyzing four or five months' worth of data during its FY 2010 and FY 2012 annual performance reviews of the Memphis CCP function.⁵

According to the IRS, the compliance goal for each audit status type is 95 percent. As noted in Figure 1, we determined the Memphis CCP function's overall compliance rate with the IRS designated metrics by using the data available in IRS systems. Although we found that the Memphis CCP function was successful in meeting or nearly meeting the 95 percent compliance goal for most of the audit status types for FYs 2010 and 2011, overall compliance decreased in the first quarter of FY 2012. As noted in Appendix VII, the IRS stated that this decrease could be a result of a combination of factors, such as decreasing staff levels and system-related outages.

³ See Appendix VI for an example of the Form 3198.

⁴ Although the Memphis CCP function provides closure support for both audits and survey cases, this report focused on only audit closures. A survey is a determination by the examiner's group manager that examination of the tax return is not warranted and the taxpayer has not yet been contacted.

⁵ An annual performance review for FY 2011 could not be performed due to budget constraints.



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Figure 1: Timeliness of the Memphis CCP Function Audit Closures by Audit Type

CCP Status Code	Audit Type Status Description ⁶	Internal Revenue Manual (IRM) Metrics	Number of Audits Closed Timely During FY 2010 Through the 1 st Quarter of FY 2012					
			FY 2010		FY 2011		FY 2012 (1 st Quarter)	
			# of Audits	%	# of Audits	%	# of Audits	%
52	Special Processing	45 Days	10,732	95%	35,166	93%	3,655	76%
53	Restricted Interest	60 Days	4,170	95%	3,707	96%	1,058	94%
54	Expedite Processing/ Short Statute	20 Days	19,047	95%	22,496	85%	2,915	90%
55	Routine Closure/ Unagreed Default	45 Days	290,956	98%	272,941	93%	51,894	79%
Total Number of Audits and Related Percentages, Closed Within the Respective Metrics			324,905	97%	334,310	93%	59,522	80%
Total Number of Audits Closed⁷			333,882		360,055		74,778	

Source: TIGTA analysis of an extract from the Audit Information Management System (AIMS) of Field audits closed by the Memphis CCP function that were assigned to Status Codes 52, 53, 54, or 55.

This review was performed at the Headquarters Offices of the SB/SE Division in New Carrollton, Maryland, the Cincinnati Submission Processing Campus in Florence, Kentucky, and the Memphis Campus Compliance Services function in Memphis, Tennessee, during the period October 2011 through April 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective,

⁶ The CCP operation prioritizes its work according to the type of audit it receives for closure. This column includes general descriptions of the types of audits that are typically associated with the specified CCP status code, which has its own designated timeliness metric.

⁷ The total number of audits closed shown here is the total number of audits closed for CCP Status Codes 52, 53, 54, and 55 only. We did not include audits closed for CCP Status Codes 51 (in transit) and 57 (survey) in our calculation of the total number of audits closed. If we had included the audits closed for CCP Status Codes 51 and 57 in our calculation, the total number of audits closed by the Memphis CCP function in FY 2010, FY 2011, and the first quarter of FY 2012 would have been 334,482, 360,536, and 74,857, respectively.



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scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Results of Review

The TIGTA's analysis of electronic data of closed audits from FY 2010 through the first quarter of FY 2012 found that the Memphis CCP function did not follow applicable procedures for closing 891 (65 percent) of 1,377 audits with an assessment amount of \$100,000 or greater that were agreed and unpaid by the taxpayer (large dollar audits).⁸ As a result, the IRS missed an opportunity to collect approximately \$324,000 in interest revenue from additional tax assessments. Our review also found that audits were not always closed timely and with accurate assessment amounts. In addition, the Memphis CCP function lacked controls to ensure that audits with short statutes for assessing taxes were protected in accordance with IRS procedures. The TIGTA's evaluation indicates a combination of factors caused the quality problems and that actions can be taken to better ensure audits are timely and accurately closed and that the statutory period is protected. During discussions over the results of our review, we learned that a team from the IRS reported their results from evaluating the Memphis CCP function's operations during March 2012. As shown in Appendix VII, the team's April 12, 2012, memorandum identified concerns similar to the concerns identified by the TIGTA. Notably, the team's memorandum lists a number of corrective actions that, if implemented effectively, will reinforce and help address our recommendations.

Numerous Management Controls Have Been Developed to Monitor the Posting of Audit Results and the Statutory Period for Assessing Taxes

The IRS relies on the Memphis CCP function's tax examiners, clerical support staff (control clerks), and its first-line managers to ensure that audits are timely and accurately closed and the statutory period for assessing taxes is protected. To assist examiners, control clerks, and first-line managers in meeting this responsibility, the IRS has developed and implemented a number of policies, procedures, and techniques (management controls). At the agency level, broad policy statements provide guidance nationwide to IRS personnel. Of the 184 IRS Policy Statements, 36 cover examination issues, such as taxpayer rights and examiner responsibilities.

At the divisional level, the quality measurement staff in the SB/SE Division reviews a statistically valid sample of examination audits to assess the degree to which the Memphis CCP function timely and accurately provided audit closure support. Data from these reviews are entered into the National Quality Review System and provides the performance results for customer accuracy, professionalism, and timeliness. In addition to reviews by the SB/SE

⁸ These audits did not have a Substitute for Return.



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Division quality measurement staff, SB/SE Division mid-level managers may evaluate ongoing work during operational reviews. Operational reviews are required to be performed at least annually to ensure work is being done effectively. These processes serve as a quality control by identifying managerial, technical, and procedural problems and providing a basis for corrective actions.

At the local level, the Memphis CCP function's first-line managers are also an important control component because they are responsible for the quality of work performed by the tax examiners and control clerks they supervise. A variety of techniques are used to ensure tax examiners and control clerks follow applicable standards and procedures when they provide audit closure support. These techniques include performance observations, discussions with tax examiners and control clerks, and reviews of audit file documentation. Through these observations, discussions, and reviews, first-line managers attempt to identify problems so examiners and control clerks can take prompt corrective actions.

The IRM is another important control component because it contains the official compilation of detailed instructions for the Memphis CCP function's tax examiners and control clerks to follow when performing audit closure support. Throughout the IRM, examiners are instructed to properly document, in audit files, all aspects of their work as it relates to audit closure support. Audit file documentation is important because it provides the principal evidence that procedures were followed, as well as the foundation for other control processes, such as managerial reviews and quality measurement reviews. The importance of the Memphis CCP function's tax examiner and control clerk documentation is further emphasized in management directives, tax examiner and control clerk training materials, and the quality measurement standards.

In addition to the previously discussed controls, SB/SE Division management has continued to implement various approaches to emphasize the expectation that the CCP operation's tax examiners and control clerks provide effective audit closure support. Specifically, since the FY 2001 TIGTA report, the Campus Compliance Services function took the following actions:

- Established the CCP operation in January 2004 in an effort to centralize and standardize Case Processing functions into fewer sites.
- Revised and reissued the IRM section⁹ that provides the CCP operation's policy guidelines and procedures for inventory control. These procedures focus on the ERCS application, which the CCP uses to monitor its inventory and update the statuses of audits.
- Revised and reissued the IRM section¹⁰ that provides the CCP operation's policy guidance and procedures for processing audits with large dollar assessment amounts.

⁹ IRM 4.7.8 (May 13, 2011).

¹⁰ IRM 4.4.18 (Jun. 11, 2010).



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- Revised and reissued the IRM section¹¹ that provides the CCP operation's policy guidance and procedures for processing quick assessments.
- Implemented procedures for the CCP operation to identify and research, on a weekly basis, the status of audit files that have been in transit for more than 30 calendar days.

Further, the IRS developed and implemented several controls to ensure that audits with short statutes (120 or fewer days remaining on the assessment statute expiration date) are prioritized and placed under special controls to ensure that revenue is appropriately protected. These controls include separating the short statute audits from the overall population to ensure that they are the first ones assigned. After an audit is assigned for processing, additional controls are in place to ensure that audits with statute dates expiring within 60 or fewer days are processed with a quick assessment rather than the normal assessment. Specifically, the IRS Report Generation Software System performs validation checks to identify audits with 60 or fewer days remaining on the assessment statute expiration date. These validation checks will reject non-quick assessment postings and generate a notice that the audit requires a quick assessment. Quick assessments are required for audits with 60 or fewer days remaining on the assessment statute expiration date as it cuts the processing time by at least 74 percent. For instance, quick assessments are posted to the Master File within one to five days as compared to the normal time period of 19 days.

Although there are layers of management controls in place to monitor the posting of audit results and the statutory period for assessing taxes, our results indicate that additional steps could be taken to better ensure that audits are timely and accurately processed and short statute audits are controlled in accordance with applicable procedures.

Controls Need Strengthening Over Assessment Statutes and the Processing of Audit Results

The Government Accountability Office *Standards for Internal Control in the Federal Government* requires agencies to establish controls that ensure operations are carried out in a manner that adheres to management policies and procedural requirements.¹² During the course of our review, we determined that the Memphis CCP function could have performed more comprehensive reviews of its inventory to better identify specific weaknesses in performance, especially regarding short statute and large dollar audits that are not controlled and processed in accordance with IRS policies and procedures.

¹¹ IRM 4.4.25 (Aug. 1, 2003).

¹² Government Accountability Office (formerly known as the General Accounting Office), GAO/AIMD-00-21.3.1, *Standards for Internal Control in the Federal Government* (Nov. 1999).



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Audits with short statute dates were not always properly controlled in accordance with applicable procedures

The SB/SE Division managers are responsible for maintaining statute controls for tax returns in the possession of personnel they supervise.¹³ For the CCP operation, this includes establishing a continuous statute control file consisting of weekly generated reports from the ERCS¹⁴ for any tax return with short statute dates. On a weekly basis, the ERCS statute control data should be reconciled to the corresponding data in the AIMS to ensure the accuracy of the data on both systems. To efficiently perform this reconciliation, the Memphis CCP function developed and implemented a local procedure where a weekly report is generated by combining statute control data from both the ERCS and AIMS and presented side-by-side.

To supplement these statute control requirements, the CCP operation's procedures require that short statute audits be prioritized and controlled by designated teams. Specifically, according to current IRS policies, audits that are received by the CCP operation with 120 or fewer days remaining on the statute date should be assigned to one of the designated teams for expedited processing and closed within 20 days of assignment. To assist the CCP operation's control clerks with assigning the audits for closure, the IRS system validation checks identify short statute audits and alert the control clerks to take the appropriate action (assign the audit to one of the designated teams). However, we found that the control clerks are not always considering this alert during the assignment process and the system does not reject the assignment if the clerk fails to assign it to the correct team.

We analyzed all audits closed during FY 2011 and found 8,997 audits (out of a universe of 360,536 audits¹⁵) that had 120 or fewer days remaining on the statute upon receipt in the CCP operation. Of those 8,997 audits, we found 229 audits with deficiencies totaling \$4.9 million that were not properly controlled in accordance with applicable procedures. Specifically, they were not assigned to one of the designated teams for expedited processing. Based on our review of a judgmental sample¹⁶ of short statute audits¹⁷ and discussion with the Memphis CCP function's management, we identified several factors that may have contributed to these audits not being properly controlled in accordance with the applicable procedures.

¹³ According to IRM 25.6.23.2 (Mar. 1, 2008), statute controls ensure: 1) statute expiration dates on tax returns are properly determined and records are annotated to reflect the correct assessment statute expiration date and 2) audits are closely monitored to prevent unintended expiration of the assessment statute of limitations.

¹⁴ ERCS statute control data are reflected on the Form 895, *Notice of Statute Expiration*, and the ERCS Pending Statute Report.

¹⁵ This total includes audits from all CCP status codes, which differs from the total listed in Figure 1.

¹⁶ A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.

¹⁷ In addition to the analysis of all FY 2011 closed audits, we also selected a judgmental sample. Specifically, as stated in Appendix I, we selected a judgmental sample of 78 closed audits from a population of 35,905 that were closed by the Memphis CCP function between September 29, 2011, and October 31, 2011. Of the 78 closed audits, 37 met the 120-day criteria. These 78 closed audits were reviewed at the Cincinnati Submission Processing Campus in Florence, Kentucky.



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The 229 audits were not properly controlled because Memphis CCP function managers have not taken steps to ensure that all audits are properly screened upon receipt to verify the statute expiration date and assign them for expedited processing when required. For example, we found that instructions from the Field, as noted on the audit closing documents, are not always being followed. In addition, although the Memphis CCP function's management monitors the status of short statute audits through weekly generated reports to ensure that the audit results are posted prior to the assessment statute expiration date, they are not using these reports to detect and correct assignment errors. Failing to properly screen each tax return and ensure that short statute audits are properly assigned increases the risk of a barred statute.

In addition, the CCP operation could enhance one of its primary tools to better assist its examiners during the screening process. Specifically, the current Form 3198 gives the option for the Field to identify audits with only 90 or fewer days remaining on the statute date as audits that require expedited processing. As a result, those audits that have short statute dates expiring between 91 and 120 days are not flagged for the control clerks during the screening process. Our review found that 166 (72 percent) of the 229 audits that were not properly controlled had statute dates that were within 91 and 120 days of expiring. According to the IRS, the Field and the CCP operation's definition for short statute audits is not consistent due to the fact that their respective functions have different goals and responsibilities. Given that Form 3198 serves both the Field and the CCP operation, we believe that Form 3198 should provide useful information for both functions. For instance, the CCP operation uses the Form 3198 as one of the primary tools to identify short statute audits during the screening process. As a result, enhancing the Form 3198 to accommodate the CCP operation's definition of short statute audits, *i.e.*, include a section for the Field to identify audits within 91 and 120 days, would better ensure audits with short statutes are properly assigned during the screening process, which would also better ensure these audits are properly controlled.

Further, we found that the management and operational reviews over the Memphis CCP function during the past few fiscal years were not designed to test compliance with applicable statute procedures. As a result, the IRS is missing an opportunity to identify and correct potential weaknesses with the Memphis CCP function's procedures to control short statute audits. Failure to identify and assign short statute audits to one of the designated teams may result in increased closure time, as well as increase the risk of potential barred statutes. For instance, of the 229 FY 2011 short statute audits that were not properly controlled, 54 (24 percent) were not closed within the 20-day requirement.¹⁸ Although the number of short statute audits that were not properly controlled represents only a small percentage of the total number of short statute audits processed by the Memphis CCP function, they comprised approximately \$4.9 million in additional tax deficiencies for which, if not properly controlled, there is an increased risk of lost revenue to the Department of the Treasury.

¹⁸ For 13 (6 percent) of the 229, it took the Memphis CCP function between 40 and 87 days to close the audit after it was assigned, which is more than double the designated metric.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Improvements are needed for identifying, controlling, and processing large dollar audits

Internal Revenue Code Section 6601(c)¹⁹ states that the IRS has 30 days to assess audits (post audit results) with agreed and unpaid deficiencies before it negatively affects the amount of interest that the IRS can capture. If the IRS takes longer than 30 days to make the assessment, the IRS cannot capture any interest after this period until the assessment posts to the taxpayer's account. Large dollar audits (deficiencies of \$100,000 or more that are agreed and unpaid) have the most effect on lost interest and, therefore, IRM procedures²⁰ require the CCP operation to place these audits under special controls and expedite the posting of audit results to ensure that revenue is appropriately protected. These requirements include assigning large dollar audits to one of the designated teams for expedited processing. In addition, the IRM requires the CCP operation to perform a quick assessment for large dollar audits to ensure that the audit results are posted within 30 calendar days from the agreement date. As noted earlier, quick assessments drastically reduce the amount of time for an assessment to post to the Master File, thus minimizing the potential (or actual) lost interest. However, our review found that the Memphis CCP function did not always properly control or process large dollar audits in accordance with applicable procedures.

Specifically, we analyzed all large dollar audits closed during FY 2010 through the first quarter of FY 2012 and found that 891 (65 percent) of 1,377 audits (from a total population of 769,875 audits) were not processed and assessed timely by the Memphis CCP function (within 30 calendar days²¹ of receipt in the Memphis CCP function), which resulted in approximately \$324,000 of lost interest revenue.

¹⁹ I.R.C. § 6601(c).

²⁰ IRM 4.4.18 (June 11, 2010).

²¹ Although the IRM requires the CCP operation to process large dollar audits within nine or 17 calendar days of receipt depending on the circumstances, we considered the audit not processed timely if it was not processed and assessed within 30 calendar days as we can reasonably assume that the audit agreement date was at a minimum one day prior to the CCP receiving the audit.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Based on our review of a judgmental sample of large dollar audits²² and discussion with the Memphis CCP function's management, we identified several factors that may have contributed to these large dollar audits not being properly controlled or processed in accordance with the applicable procedures. For example, the CCP operation relies exclusively on the Field to identify large dollar audits on the Form 3198 and lacks additional controls to attempt to identify all large dollar audits that are in their possession in the event that the audit file was not appropriately flagged by the Field. The IRS also lacks system validation checks to identify and alert the CCP operation that the audit being assigned for closure is a large dollar audit and therefore requires assignment to one of the designated teams for expedited processing.

In addition, the current IRS system does not perform validation checks to ensure that the appropriate quick assessment is performed on large dollar audits, as the system does for the short statute audits discussed previously. For instance, when the Memphis CCP function attempts to post a normal assessment for large dollar audits, the system does not reject the posting and generate a message that a quick assessment may be required. As a result, there is an increased risk that both a normal assessment and quick assessment could be performed for one audit, thus, resulting in duplicate assessments. In our sample of 78 audits, we found that *****1*****
*****1***** that was subsequently reversed after the TIGTA notified the IRS of the error. *****1*****
*****1*****, during our aggregate level analysis of audits closed during FY 2010 through the first quarter of FY 2012. When we brought ***1**** to the attention of IRS officials, they informed us that they had already identified and reversed the *****1*****.

Further, we found that the management and operational reviews over the Memphis CCP function during the past few fiscal years were not designed to test compliance with procedures for large dollar audits. As a result, the IRS is missing an opportunity to identify and correct potential weaknesses with the Memphis CCP function's controls over large dollar audits, and thereby risks the loss of potential interest revenue. Although, the IRS implemented new procedures in January 2012 to require large dollar audits to be assigned immediately upon receipt, more systematic controls are necessary to ensure that large dollar audits are identified upon receipt, as well as controlled and processed in accordance with applicable procedures.

²² In addition to the analysis of all large dollar audits closed during FY 2010 through the first quarter of FY 2012, we also selected a judgmental sample. Specifically, as stated in Appendix I, we selected a judgmental sample of 78 closed audits from a population of 35,905 that were closed by the Memphis CCP function between September 29, 2011, and October 31, 2011. These audits were reviewed at the Cincinnati Submission Processing Campus in Florence, Kentucky. Of the 78 closed audits, six had agreed, unpaid deficiencies of \$100,000 or more and did not have a Substitute for Return.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Management needs to ensure audits are closed with correct assessment amounts to avoid unnecessarily burdening the taxpayer and lost revenue

Strong controls over the processing and posting of audit results are critical for ensuring that any additional taxes owed, based on audits of taxpayers, are paid and collected. However, we found that the Memphis CCP function processed incorrect assessment amounts that were not detected by existing IRS controls or management reviews. When incorrect assessments are posted, the IRS is at risk of placing undue burden on a taxpayer and potentially losing revenue for the Department of the Treasury.

During the course of our review, we found three audits²³ that were closed with incorrect assessment amounts totaling approximately \$134,000. For each of these three audits, neither the Memphis CCP function’s examiners nor current IRS system validation checks identified these posting errors as part of the standard procedures for closing audits. This occurred because the CCP operation’s procedures do not require tax examiners to perform a manual comparison of the assessment amounts reported on the hardcopy closing documents and the corresponding assessment amounts reported on the electronic versions of the closing documents. Although the assessment amounts noted on the hardcopy and electronic closing documents should be consistent, our review found, and Memphis CCP function officials agreed, that the closing documents sometimes include conflicting information. For example, the Field may print a more recent version of a closing document with the correct assessment amount and include it in the audit file, but fail to electronically save the updated closing document in the system. Under this scenario, the electronic closing document, which the CCP operation uses to close the audit in the system, would have the incorrect assessment amount. For the three cases noted, the Field did not save the information in the closing document and, as a result, the Memphis CCP function closed the audits with incorrect assessment amounts. According to the CCP operation’s officials, the Field is responsible for ensuring the consistency of the closing documents and, therefore, the CCP operation’s procedures do not currently require its tax examiners to compare the assessment amounts on the closing documents. Given the known risk of inconsistent closing documents, the IRS should evaluate the feasibility of implementing additional procedures to help reduce the risk of incorrect assessment amounts.

In addition, reviews by Memphis CCP function first-line managers, quality measurement staff, and mid-level managers, do not include steps to test whether Memphis CCP function tax examiners are identifying discrepancies in the closing documents. According to IRS officials, the CCP operation relies on the Field to input the correct assessment amount into the electronic closing document and, therefore, Memphis CCP function management reviews do not test for these types of discrepancies. However, given that the Memphis CCP function is aware that the information in the closing documents is not always consistent, the Memphis CCP function

²³ ***** | *****
***** | *****



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should also have management reviews in place to help provide performance feedback to better ensure that incorrect assessment amounts are minimized. The lack of effective management reviews increases the risk that errors made in the processing and posting of audit results will remain undetected or will not be detected in a timely manner. Incorrect assessment amounts that result in underassessments could result in lost revenue for the IRS in the event that the error is not caught prior to the assessment statute expiration date.

Recommendations

The Director, Campus Reporting Compliance, SB/SE Division, should:

Recommendation 1: Develop and implement additional procedures to ensure that all audits entering the CCP operation with short statute expiration dates and large dollar assessment amounts are timely and accurately assigned and processed in accordance with applicable procedures.

Management's Response: IRS management agreed with this recommendation and stated that Campus Reporting Compliance now uses the 120-day Numeric Statute Report, implemented July 1, 2012, to monitor and control statutes. Statute audits that meet the assessment criteria are identified and reassigned for immediate resolution. In addition, a new pop-up box will be implemented in the Integrated Automation Technologies tool that will identify audits with an assessment of \$100,000 or more when the audits are initially assigned by the clerical team.

Recommendation 2: Conduct a cost-benefit analysis to determine whether it would be beneficial to develop and implement systematic controls to ensure that the required quick assessments are performed on large dollar audits.

Management's Response: IRS management agreed with this recommendation and stated that they will determine if further systematic controls are needed once the Integrated Automation Technologies tool, noted in Recommendation 1, is implemented. To accomplish this, the IRS stated it plans to work with the SB/SE Division Research function to determine a reasonable sample review.

Recommendation 3: Ensure that controls are developed and implemented to reduce the risk of audits being closed with incorrect assessment amounts, including comprehensive guidance to assist managers in conducting reviews of processing and posting audit results, and documenting the results of such reviews.

Management's Response: IRS management agreed with this recommendation and stated that the responsibility for this action belongs with the Director, Examination, SB/SE Division. The SB/SE Division Examination function has developed comprehensive guidance regarding the necessity to validate audits to ensure accurate



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processing and posting of audit results. Managers and examiners will be trained on the new guidance.

Recommendation 4: Coordinate with the Director, Exam Planning and Delivery, SB/SE Division, regarding the feasibility of enhancing Form 3198 so that all audits with short statute expiration dates are appropriately identified.

Management's Response: IRS management partially agreed with this recommendation. The Form 3198 is used by the SB/SE Division Examination function to provide closing instructions to the CCP function. The CCP function uses the 120-day Numeric Statute Report to monitor and control any short statute audits. Any audits requiring assessment are reassigned for immediate resolution. After completion of the planned corrective action for Recommendation 1, the IRS will re-evaluate the process to determine if enhancements to the Form 3198 would be helpful or needed.

Additional Controls Are Needed to Ensure Employees' Access to Sensitive Command Code Combinations Is Appropriate

The Memphis CCP function uses the Integrated Data Retrieval System (IDRS) to process various transactions to post audit results, including but not necessarily limited to, adjusting the amount assessed on taxpayer accounts, transferring credits, and changing taxpayer addresses. Based on the IRS employee's specific role and responsibilities, he or she is granted access to input certain IDRS transactions (command codes) to post audit results. As stated in a prior IRS Office of Inspection Internal Audit report,²⁴ access to certain combinations of IDRS command codes may compromise the segregation of duties, thereby increasing the risk for improper actions to occur and go undetected. Because the IRS recognizes that certain employees may need access to these sensitive command code combinations to perform their day-to-day responsibilities, it does not prohibit employees from having such combinations in their profiles. However, IRS systems do not require a secondary level of review when an employee uses a sensitive command code combination.

As noted in the Government Accountability Office's *Standards for Internal Control in the Federal Government*, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. Because strict adherence to this policy may not be feasible or practical in every situation, internal controls should therefore be designed to assure that ongoing monitoring occurs in the course of normal operations to minimize the risk for improper actions. To address the associated risk of error or fraud due to employees having access to such combinations, IRS policies require management to develop procedures for assigning, monitoring, and reviewing the access to and use of these sensitive command code

²⁴ IRS Office of Inspection Internal Audit, Ref. No. 371802, *Risk Assessment of Midstates Region Collection Division Inventory and IDRS Controls* (Jul. 1997).



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combinations. The IRM²⁵ also states that the command code use of employees with access to sensitive command code combinations should be reviewed by front-line managers at least monthly to determine that no inappropriate actions have been performed.

During our review, we found that 80 (49 percent) of 163 employees from the Memphis CCP function had access to at least one of 12 sensitive command code combinations in FY 2011.²⁶ We also found that 75 (52 percent) of 145 employees from the Memphis CCP function had access to at least one of 11 combinations in the first quarter of FY 2012.²⁷ This total includes 13 employees who had access to combinations that would allow both the approval of manual refunds on an account and the ability to change a taxpayer's address. Despite the IRM requirements and the fact that one-half of Memphis CCP function employees have access to sensitive command code combinations, we found that the Memphis CCP function has not developed or implemented any procedures for assigning, monitoring, or reviewing their employees' access to and use of these sensitive command code combinations.

In addition, the monthly IDRS reports, which all IRS managers are required to certify, do not include any information regarding IRS employees' access to or use of sensitive command code combinations. We reviewed the IRS system capabilities and found that managers can generate reports to monitor employees' access to specific command code combinations. However, according to IRS officials, the current IRS systems are not capable of identifying employees' use of a sensitive command code combination for one particular taxpayer at the same time.

Further, during our review, we met with Memphis CCP function managers about the requirements to monitor employees' access to and use of sensitive command code combinations and they informed us that they were not aware of the requirements or how to perform this type of monitoring. We reviewed IDRS procedural guidance and handbooks, and the training materials provided to all IDRS reviewers, which included Memphis CCP function managers, and found that none of them included specific instructions for how to monitor employees' access to and use of sensitive command code combinations. We also found that Memphis CCP function managers did not always attend the required trainings. For instance, all 14 managers from the Memphis CCP function should have completed the initial training during FY 2010; however, we found that eight (57 percent) of the 14 managers did not complete this training during FY 2010. Seven of the eight managers completed the initial training during FY 2011; however, at the time of our review, one manager had not completed this training two years after the initial requirement. This is particularly alarming because six of these eight managers were given IDRS administrative rights prior to receiving any training on how to perform their duties as an IDRS reviewer.

²⁵ IRM 10.8.34 (Oct. 14, 2011).

²⁶ See Appendix V for additional details surrounding the employees' access to and potential risks of sensitive command code combinations.

²⁷ The number of sensitive command code combinations for which Memphis CCP function employees had access decreased from 12 in FY 2011 to 11 in FY 2012.



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Without adequate procedures and controls over the employees' access to and use of sensitive command code combinations, there will continue to be a risk of potentially fraudulent transactions occurring and going undetected.

Recommendations

The Director, Campus Reporting Compliance, SB/SE Division, should:

Recommendation 5: Develop and implement procedures for assigning, monitoring, and reviewing Memphis CCP function employees' access to and use of sensitive command code combinations.

Management's Response: IRS management agreed with this recommendation and stated that they have completed the corrective action. Training was provided to all managers to ensure appropriate monitoring and use of all command codes. The Planning and Analysis function staff will ensure that managers are adhering to appropriate monitoring by including this as part of the Director's annual review.

Recommendation 6: Ensure that Memphis CCP function managers are adequately trained on the specific process for assigning, monitoring, and reviewing its employees' access to and use of sensitive command code combinations.

Management's Response: IRS management agreed with this recommendation and stated that Memphis CCP function managers are now required to take annual training on assigning, monitoring, and reviewing employees' IDRS access.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to determine whether the Memphis CCP¹ function's controls are ensuring that SB/SE Division audits are timely and accurately processed, and the statutory period for assessing taxes is protected. To accomplish the objective, we:

- I. Determined what actions the IRS has taken in response to recommendations from a prior TIGTA report² by researching relevant IRM sections and discussing policies and procedures with IRS management officials in the Memphis CCP function.
- II. Determined whether the Memphis CCP function is timely and accurately processing audits by performing the following:
 - A. Reviewed the IRM and interviewed management officials for local guidance to identify responsibilities of the Memphis CCP function and general internal controls over processes.
 - B. Conducted aggregate-level analysis of audits closed and processed through the Memphis CCP function from FY 2010 through the first quarter of FY 2012 through the use of AIMS data to determine whether the audits were processed within the required time metrics.
 1. Validated the AIMS data by comparing our results with the Weekly Health Reports from IRS Headquarters for FYs 2010 to 2012.
 - C. Obtained ERCS inventory lists for the Memphis CCP function using the ERCS application. These include audits in transit (ERCS Status Code 51) from Field groups and audits currently being worked in the Memphis CCP function (ERCS Status Codes 52-57) as of December 27, 2011, and audits that were closed (ERCS Status Code 90) between December 19, 2011, and December 27, 2011.
 - D. Identified, reviewed, and tested the controls over processing agreed and unagreed audits by selecting a judgmental sample³ of 78 closed audits from a population of 35,905 that were closed by the Memphis CCP function between September 29, 2011, and October 31, 2011. To avoid any impact on the Memphis CCP function's operations, we selected our sample from audits that were already closed and shipped

¹ See Appendix VIII for a glossary of terms.

² TIGTA, Ref. No. 2001-30-154, *The Case Processing – Examination Support Processing Function Is Timely Performing Many of Its Responsibilities* (Sept. 2001).

³ A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.



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- to storage. Specifically, we judgmentally selected audits that were in storage at the Cincinnati Submission Processing Campus in Florence, Kentucky. We limited our sample to 78 audits due to resource and time constraints. Our tests on this sample included reconciling the corresponding electronic data in the IDRS, the ERCS, and the AIMS to the hard copy audit files.
- E. Identified 1,377 large dollar audits with agreed and unpaid deficiencies greater than \$100,000 through the use of AIMS, ERCS, and Master File data from a population of 769,875 Field audits closed during FY 2010 through the first quarter of FY 2012. Of the 1,377 large dollar audits, we identified 891 audits where the assessment date was more than 30 days after the Memphis CCP function received date.
1. Validated the AIMS data by comparing a random sample of 25 of the 891 audits to the IDRS.
 2. Validated the ERCS data by comparing a random sample of 100 closed audits to the original source documents.
 3. Calculated interest that was lost on 891 audits where the assessment date was more than 30 days after the Memphis CCP function received date by compounding interest daily using formulas in Microsoft Excel that we validated using a commercial interest computation software.
- III. Determined whether the Memphis CCP function is protecting the statutory period for assessing taxes.
- A. Evaluated the Memphis CCP function's statute controls, including barred statute reports, to ensure there are no control weaknesses or integrity potential.
1. Researched relevant IRM sections and discussed associated policies and procedures with IRS officials to determine the current controls that are in place to monitor statute dates.
 2. Reviewed barred statute reports from FYs 2010 and 2011 to determine if the Memphis CCP function had barred statutes resulting specifically from issues where the statute date was not timely or effectively monitored.
- B. Using AIMS and ERCS data, identified 229 audits from FY 2011 with assessment statutes expiring within 120 days that were not properly controlled according to IRS policies and procedures.
1. Validated the AIMS data by comparing a random sample of 25 of the 229 audits to the IDRS.
 2. Validated the ERCS data by comparing a random sample of 100 closed audits to the original source document.



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- C. Evaluated the timeliness and effectiveness of managerial reviews over returns with pending statute dates. This involved reviewing management and operational reviews of the Memphis CCP function for FYs 2010 and 2011 to determine if such reviews included tests for compliance with applicable statute procedures.
 - D. Verified the assessment statute date for a judgmental sample of 78 closed audits from Step II.D. Based on the Memphis CCP function's receipt date, we identified 37 audits with 120 or fewer days remaining on the assessment statute date. We validated the dates using the ERCS, the IDRS, and supporting documentation in the audit files.
- IV. Determined whether the electronic security controls over tax returns in the Memphis CCP function are effective.
- A. Evaluated the security over the IDRS, ERCS, and AIMS databases by discussing controls with IRS management officials in the Memphis CCP function and Cyber Security organization and analyzing IDRS Online Reports Services Quarterly and Monthly Reports for FY 2011 through the first quarter of FY 2012 to identify examiners with sensitive command code combinations.
 - B. Determined whether the Memphis CCP function managers were adequately trained on the processes for assigning, monitoring, and reviewing Memphis CCP function employees' access to and use of sensitive command code combinations.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: IRS policies, procedures, and practices for timely and accurately processing audits and ensuring the statutory period is protected. We evaluated these controls by reviewing source materials, interviewing management, analyzing audit data, and researching the AIMS, the ERCS, and the IDRS.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Campus Compliance Services, Small Business/Self-Employed Division SE:S:CCS
Director, Examination, Small Business/Self-Employed Division SE:S:E
Director, Campus Reporting Compliance, Small Business/Self-Employed Division
SE:S:CCS:CRC
Director, Campus Compliance Operations, Memphis, Small Business/Self-Employed Division
SE:S:CCS:CCO
Director, Exam Planning and Delivery, Small Business/Self-Employed Division SE:S:E:EPD
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; \$323,900 from additional interest revenue assessed for 891 Field¹ audits closed during FY 2010 through the first quarter of FY 2012 (2.25 year period); \$719,779 when projected over five years² (see page 7).

Methodology Used to Measure the Reported Benefit:

Our calculation assumes that the interest revenue resulting from the audit deficiency would have been assessed and paid by the taxpayer had the Memphis CCP function processed the audit closure timely and accurately. According to the IRM,³ every effort should be made to assess the deficiency within 30 calendar days of the agreement date if the unpaid deficiency is greater than \$100,000. As noted in our report, this is especially important because interest revenue starts accruing on the 31st day after the agreement date when the audit assessment amount is posted timely. Both the Field and the CCP operation share responsibility for ensuring that this 30-day criterion is met. For instance, the Field must forward the audit files to the CCP operation after the agreement date has been secured, and the CCP operation must then input the audit assessment amount to close the audit all within this 30-day time period. If the assessment amount does not post to the taxpayer's account within 30 days of the agreement date, then the IRS loses interest revenue. As noted in our report, the IRS is often required to input a quick assessment to ensure the assessment amount is posted to the taxpayer's account within the designated time periods, such as these large dollar audits.

Because the agreement dates are not available on an aggregate level, we could not readily determine the full extent of the lost interest revenue for all of the large dollar audits that lacked

¹ See Appendix VIII for a glossary of terms.

² The five-year forecast of \$719,779 was calculated by taking the \$323,900 and dividing it by 2.25 years (FY 2010 through the first quarter of FY 2012) and multiplying by five years. This forecast assumes that the error trends present in FY 2010 through the first quarter of FY 2012 will remain constant over the next five years. Because we are applying a uniformity assumption based on observations from 2.25 years of data, we are unable to quantify the degree of uncertainty associated with the forecasted \$719,779 in additional interest revenue. This type of forecasting is used by the Federal Government in many instances.

³ IRM 4.4.18.3 (June 11, 2010).



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an assessment posting within 30 days from the agreement date. Instead, we developed a methodology to conservatively estimate lost interest revenue attributable solely to the Memphis CCP function. Specifically, we considered the audit closure not timely if the assessment amount, which the Memphis CCP function input into the system, did not post to the Master File after 30 days from when they received the audit file from the Field.

To estimate the potential additional interest revenue associated with the Memphis CCP function's untimely closure of large dollar audits, we first identified the total universe of audits that met the criteria for large dollar audits as defined by the IRM.⁴ To do this, we

- Used the AIMS data to identify large dollar audits closed by the Memphis CCP function between October 1, 2009, and December 31, 2011.
- Joined the data from the previous step with the ERCS data to identify the date that the Memphis CCP function received the audit.
- Joined the data from the previous step with the IRS Master File data to identify the date the assessment amount was posted to the taxpayer's account.
- Eliminated all audits where a Substitute for Return was present.

This analysis identified 1,377 large dollar audits, totaling \$273,783,432 in deficiencies, from a population of 769,875 Field audits closed during FY 2010 through the first quarter of FY 2012.

From the population of 1,377 accounts, we identified those audits that were not processed timely by the Memphis CCP function. As noted previously, we considered that the audit closure was not processed timely if the audit assessment amount was not posted to the taxpayer's account within 30 days from the date the Memphis CCP function received the audit file from the Field. Using this criterion, we identified 891 audits where the assessment posting date was greater than 30 days from the date the Memphis CCP function received the audit file from the Field.

From the population of 891 audits, we calculated the interest revenue using the amount of each audit's tax deficiency and multiplied it by the 1) compounded interest rate effective at the time the return was filed, which ranged from 3 to 4 percent and 2) number of days in excess of 30 days from the Memphis CCP function's date of receipt. For these 891 audits, the estimated amount of interest lost due to the Memphis CCP function's failure to follow applicable procedures, *e.g.*, perform the required quick assessment and/or closing the audit within the IRM requirements, was \$323,900.

We shared our outcome measure methodology with an outside statistical expert who confirmed the accuracy of our methodology and forecast.

⁴ According to IRM 4.4.18 (June 11, 2010), a large dollar audit must have an agreed and unpaid deficiency of \$100,000 and greater. Also, the audit must not have been secured by the Examination function after a Substitute for Return has posted.



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Appendix V

Employees' Access to Sensitive Command Code Combinations and the Potential Risks

This appendix presents detailed information on Memphis CCP function employees' access to and use of sensitive command code combinations, as well as the potential risks associated with each combination. As stated in a prior IRS Office of Inspection Internal Audit report,¹ there are several sensitive command code combinations that would normally require proper segregation of duties. However, as shown in Figure 1, we found that Memphis CCP function employees had access to several sensitive and conflicting command code combinations during FY 2011 and the first quarter of FY 2012. During this same time period, we found several instances where Memphis CCP function employees input both of the sensitive command codes within a particular combination. However, as noted in our report, current IRS systems are not capable of identifying the employees' use of sensitive command code combinations for one particular taxpayer at the same time.

Figure 1: Memphis CCP Function Employees' Access to and Use of Sensitive Command Code Combinations and the Potential Risks of Each Combination

	Sensitive Command Code Combinations		Number of Memphis CCP Function Employees Who Had <u>Access to Sensitive Command Code Combinations</u> (and Used ² Both Codes in the Combination)		Potential Risks Associated With Sensitive Command Code Combinations
			FY 2011	FY 2012 (1 st Quarter)	
1	*****2(f)*****	*****2(f)*****	29 (27)	14 (8)	****2(f)*****

¹ IRS Office of Inspection Internal Audit, Ref. No. 371802, *Risk Assessment of Midstates Region Collection Division Inventory and IDRS Controls* (Jul. 1997).

² We determined that Memphis CCP function employees used both codes within a combination to adjust taxpayer accounts; however, due to IRS system limitations, we were unable to determine whether the employees' use of sensitive command code combinations was for one particular taxpayer at the same time.



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	Sensitive Command Code Combinations		Number of Memphis CCP Function Employees Who Had <u>Access to Sensitive Command Code Combinations</u> (and Used ² Both Codes in the Combination)		Potential Risks Associated With Sensitive Command Code Combinations
			FY 2011	FY 2012 (1 st Quarter)	
2	*****2(f)*****	*****2(f)*****	66 (57)	62 (33)	*****2(f)*****
3	*****2(f)*****	*****2(f)*****	23 (15)	13 (4)	*****2(f)*****
4	*****2(f)*****	*****2(f)*****	15 (9)	10 (9)	*****2(f)*****
5	*****2(f)*****	*****2(f)*****	79 (71)	73 (62)	*****2(f)*****



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	Sensitive Command Code Combinations		Number of Memphis CCP Function Employees Who Had <u>Access to Sensitive Command Code Combinations</u> (and Used Both Codes in the Combination)		Potential Risks Associated With Sensitive Command Code Combinations
			FY 2011	FY 2012 (1 st Quarter)	
6	*****2(f)*****	*****2(f)*****	30 (27)	15 (9)	*****2(f)*****
7	*****2(f)*****	*****2(f)*****	67 (57)	63 (33)	*****2(f)*****
8	*****2(f)*****	*****2(f)*****	23 (15)	13 (4)	*****2(f)*****



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	Sensitive Command Code Combinations		Number of Memphis CCP Function Employees Who Had <u>Access to Sensitive Command Code Combinations</u> (and Used Both Codes in the Combination)		Potential Risks Associated With Sensitive Command Code Combinations
			FY 2011	FY 2012 (1 st Quarter)	
9	*****2(f)*****	*****2(f)*****	15 (9)	10 (9)	*****2(f)*****
10	*****2(f)*****	*****2(f)*****	80 (71)	74 (64)	*****2(f)*****
11	*****2(f)*****	*****2(f)*****	12 (7)	4 (4)	*****2(f)*****
12	*****2(f)*****	*****2(f)*****	2 (0)	0 (0)	*****2(f)*****

Source: IDRS Online Reports Services,³ the IRM, and our analysis of the information from these sources.

³ See Appendix VIII for a glossary of terms.



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<p>TEFRA Investor Instructions (Investor with unresolved TEFRA flow-through issues) Update in accordance with currently established procedures.</p> <p><input type="checkbox"/> Agreed: <input type="checkbox"/> Brookhaven <input type="checkbox"/> Ogden</p> <p>1) Assess Non-TEFRA issues as Partial Agreement 2) Forward case file to Campus TEFRA Function (CTF) after assessment</p> <p><input type="checkbox"/> No Change: <input type="checkbox"/> Brookhaven <input type="checkbox"/> Ogden</p> <p>1) Issue No-Change Letter No. _____ 2) Forward case file to CTF after No-change letter issued</p> <p><input type="checkbox"/> Survey: <input type="checkbox"/> Brookhaven <input type="checkbox"/> Ogden</p> <p>1) Forward case file to CTF</p>	<p>Instructions for CCP - Investor and/or Key Case Information (to be completed by Technical Services only)</p> <p><input type="checkbox"/> Examined Closure – Ready for final closure</p> <p><input type="checkbox"/> TEFRA Partnership – Final Closure</p> <p><input type="checkbox"/> Non-TEFRA <input type="checkbox"/> Partnership <input type="checkbox"/> S-Corp (1120-S)</p> <p><input type="checkbox"/> Forward to CTF: <input type="checkbox"/> Brookhaven <input type="checkbox"/> Ogden</p> <p><input type="checkbox"/> TEFRA Linked Partner – Forward to CTF: <input type="checkbox"/> Brookhaven <input type="checkbox"/> Ogden</p> <p><input type="checkbox"/> Other (explain) _____ _____ _____</p> <p>TEFRA Coordinator: _____ Date: _____ Telephone Number: (____) _____</p>																		
<p>Special/Restricted Interest Features ("x" all that apply)</p> <p><input type="checkbox"/> 6205 Interest Free adjustment date (agreed employment tax returns): _____</p> <p><input type="checkbox"/> 6404 (g) Tax Year _____ Notice date _____ Tax _____ 2nd Notice date _____ Tax (tax due on new items or adjustments only) _____ <input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> 6404 (g) Tax Year _____ Notice date _____ Tax _____ 2nd Notice date _____ Tax (tax due on new items or adjustments only) _____ <input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Interest Netting (a.k.a. global netting or net rate interest due to IRC 6621(f))</p> <p><input type="checkbox"/> Rev Rule 99-40 applicable due to credit elect-Completed Form 2210/2220 attached</p> <p><input type="checkbox"/> Multiple Agreements: Date of First RAR _____</p> <p><input type="checkbox"/> NOL and/or Capital Loss Carryback</p> <p><input type="checkbox"/> GATT (applicable to corporate overpayments > \$10,000 after 12/31/94)</p> <p><input type="checkbox"/> 2% LCU (Large Corporate Underpayments > \$100,000) Date of 30 day letter for additional 2% interest _____</p> <p><input type="checkbox"/> Code Section 6166</p> <p><input type="checkbox"/> Other Code Section _____ _____ _____</p>	<p>Letter Instructions for CCP RGS generated letter or non-RGS letter enclosed in file (“x” all that apply)</p> <p><input type="checkbox"/> Copy to POA - Letter 937</p> <p><input type="checkbox"/> Agreed - Letter 987</p> <p><input type="checkbox"/> Agreed - Letter 1002 (Forms 1120S/1065)</p> <p><input type="checkbox"/> Agreed - Letter 3382 (Employment Tax)</p> <p><input type="checkbox"/> No Change Letters:</p> <p> <input type="checkbox"/> Letter 590 (straight N/C) <input type="checkbox"/> Letter 1156 (change/no change)</p> <p> <input type="checkbox"/> Letter 992 (1120S, 1065) <input type="checkbox"/> Letter 3381 (Employment Tax)</p> <p><input type="checkbox"/> Claim Letters: (Completed draft copy enclosed)</p> <p> <input type="checkbox"/> Fully Allowed - L570 Informal/Abatements - <input type="checkbox"/> L2738</p> <p><input type="checkbox"/> Estate Tax Closing Letter 627</p> <p><input type="checkbox"/> Other Letter: _____ For Years: _____</p> <p><input type="checkbox"/> No letter required to be sent by CCP</p> <p><input type="checkbox"/> Other Instructions _____ _____ _____ _____ _____</p>																		
<p>Over \$100,000 Agreed and Unpaid</p> <p>Agreement Received: _____ Total Amount of Deficiencies/Overassessments plus Penalties (Not Offset by Overassessments, Over \$100,000 criteria is applied per tax period) \$ _____</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;"></th> <th style="width: 15%;">Date Received</th> <th style="width: 15%;">Date Closed</th> <th style="width: 15%;">Days</th> <th style="width: 15%;">Initial</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Examiner</td> <td>_____</td> <td>_____</td> <td>_____</td> <td>_____</td> <td>(Explain Days > 4 from Agreement Received Date)</td> </tr> <tr> <td>Group Manager</td> <td>_____</td> <td>_____</td> <td>_____</td> <td>_____</td> <td>(Explain Days > 4 from Agreement Received Date)</td> </tr> </tbody> </table> <p>Explanation of Delays: _____ _____ _____ _____ _____</p>			Date Received	Date Closed	Days	Initial		Examiner	_____	_____	_____	_____	(Explain Days > 4 from Agreement Received Date)	Group Manager	_____	_____	_____	_____	(Explain Days > 4 from Agreement Received Date)
	Date Received	Date Closed	Days	Initial															
Examiner	_____	_____	_____	_____	(Explain Days > 4 from Agreement Received Date)														
Group Manager	_____	_____	_____	_____	(Explain Days > 4 from Agreement Received Date)														
<p>Form 3198 (Rev. 7-2011) Catalog Number 22145A Department of the Treasury — Internal Revenue Service</p>																			

Source: IRS Forms and Publications, dated July 2011.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Appendix VII

Fiscal Year 2012 Performance Review of Centralized Case Processing at the Memphis Campus


SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

April 12, 2012

MEMORANDUM FOR DIRECTOR, CAMPUS COMPLIANCE OPERATIONS
MEMPHIS CAMPUS

FROM: Jeffrey J. Basalla Basalla 
Director, Campus Reporting Compliance

SUBJECT: FY 2012 Field Support Program Review Report

This memorandum serves to summarize the assistance review of your Field Support Program, Centralized Case Processing (CCP) by my Headquarters (HQ) staff during the period of March 27 – March 29, 2012. We appreciated the hospitality you and your staff offered to the team before and during this review. Meeting summaries are provided below. Additional information can be found on the attached Methodology document.

The CCP employees and managers were fully engaged during this review and provided great program insight and ideas for program enhancements. Both HQ and CCP were open to new ideas and HQ readily implemented those ideas that would enhance workflow. HQ fully recognizes the dedication and hard work of the CCP staff in handling the large volume of workload. HQ looks forward to the continued partnership as we work through these complex issues with CCP. Please share our gratitude to the CCP staff.

Meeting with Operations Manager
HQ met with the Operations Manager to discuss the various reports used for monitoring inventory, assignment of work practices, and requested the Field Office Resource Team (FORT) to utilize the Miscellaneous Forms Log to gather data that would be helpful to share with Field Exam. HQ discussed and reviewed the process for agreed, unpaid cases (>\$100,000) to ensure compliance with IRM 4.4.18.3. Field Exam is responsible for making the proper notation on Form 3198 to reflect the case is a large dollar assessment. If the case is not properly marked, an inquiry was made to determine if the clerical team could assist with identifying the deficiency amount in the bottom portion of Form 3198 when assigning the case to the proper team. This item was later discussed with the clerical team and included in the related section below. When the clerical team identifies this type of case, the team is adding a red folder to reflect the required expeditious handling and action is needed. The clerical team hand delivers the case either as the case is received or no later than the close of business that day.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Action Items:

- By 5/15/2012, the FORT team should begin utilizing the Miscellaneous Forms log to gather any data that would be useful to share with the field.
- By 5/15/2012, HQ CCP will discuss with IAT the possibility of adding a pop-up box to identify cases as over \$100,000 when the clerical team is assigning cases to allow for the proper assignment of cases.
- By 5/15/2012, HQ CCP will pursue the request by TIGTA to develop a report for CCP to monitor these cases by the 9 and 17 days versus the Status 54 monitoring. HQ may consider removing this information from the IRM, since the case should be processed within 20 days of receipt.
- By 5/15/2012, HQ will correct a field in the Weekly Health Report. The formula for the cumulative direct staff percentage appears to have been changed in error.

Meeting with Statute Coordinator and Statute Team Manager

Reviewed and discussed procedures to ensure IRM 25.6.23.7 are being followed. As reflected in the Methodology document, all procedures are being followed and CCP is in compliance with this IRM. Reviewed the processes and ensured that the team manager reviews all statuses to determine if there are imminent statute cases in other statuses. If a case is found, the manager of the team makes the appropriate contact and the case is reassigned. HQ identified that Status 54 cases with a processed quick assessment are held longer than the IRM 4.4.25.9 requires. CCP is currently holding cases for the receipt of the DLN after the quick assessment is faxed to Cincinnati Accounting. Therefore, CCP is not in compliance with this IRM reference. The processes were reviewed and HQ found the proper guidelines are followed when a barred assessment is discovered. All timeframes are being met based on the IRM.

Action Items:

- By 5/15/2012, per IRM 4.4.25.9, HQ requested CCP to discontinue holding cases until the DLN is received from Accounting. A positive by product of this change will decrease the overage cases in Status 54.
- By 5/15/2012, CCP will provide a copy of the statute action plan to HQ that was developed by CCP. HQ was advised of this during close out. HQ may be able to implement this as a Best Practice in other campuses.

Meeting with Streamline Team Manager

During the FY 2011 HQ Assistance Visit, changes were made regarding the complex rejects. The new procedures implemented are working well. In April, 2012, a new lead will be detailed from the Pipeline team. This person will be able to work the complex rejects that are currently being reassigned to the Pipeline team, therefore allowing all rejects to remain within the team.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Action Item:

- By 5/15/2012, HQ will contact the RGS Liaison to discuss the hash total reject process that does not appear to be working and concerns with letters from the field.

Meeting with Clerical Team Manager

HQ met with the Clerical Team Manager and reviewed the timeframes and processing of Forms 3210. The Forms 3210 were reviewed and are filed daily by the Lead. The forms were filed by the CCP stamped received date, by the Primary Business Code (PBC), and per month.

Action Items:

- By 5/15/2012, HQ will make the necessary contacts to determine whether the new functionality of E-fax will enhance the Form 3210 process.
- By 5/15/2012, CCP will ensure that the process used for verifying all years on Form 3210 are updated on ERCS via IAT. To ensure that all returns are properly accounted for and not inadvertently updated, HQ recommended that discrepancies are held until the end of the day in case the discrepancy is resolved. If not, the site should contact Field Exam.
- By 5/15/2012, CCP will no longer hand deliver each expedited case. Delivering in batches or at least on a daily basis has been determined to be adequate.
- By 5/15/2012, CCP will begin reviewing the bottom portion of Form 3198 (and the second page when more than one tax year is involved) to determine if the deficiency is greater than \$100,000. This would only be required, if Field Exam fails to mark the appropriate box on the form, indicating the case is >\$100,000 Agreed and Unpaid.

Meeting with Miscellaneous Team Manager

The process for assigning and logging the miscellaneous forms received from Field Exam that was implemented in February 2012 was reviewed. It was determined the process was working and is timely kept. However it is time consuming to log the data. HQ determined that while time consuming, it provides an audit trail to account for receipt and input of the forms. It also provides good customer service to the field. Incorrect or incomplete forms received are either corrected or a contact with the Field is made. Guidelines provided by HQ are in process and properly working to monitor the Status 51 In-Transit listing.

Action Items:

- CCP should continue to log the data for Forms 3177 and 2363 when received from the Field.
- CCP will immediately begin gathering data regarding miscellaneous forms received (other than Forms 3177 and 2363). Currently, these must be processed within 14 days of receipt. HQ will address the issues with Field Exam.
- CCP should continue to follow the guidelines issued by HQ on March 5, 2012 for reviewing Status 51 In-Transit listings.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Meeting with FORT Manager

HQ reviewed the call logs for each FORT employee. Based on the information included in the logs, Field Exam and CCP are receiving support for issues relating to the cases. HQ also reviewed the logs used for maintenance of Forms 3870; no concerns were found. HQ shared information with CCP to show that a request had been submitted to the IRM author to revise IRM 25.6.23.7.6.3 to include the 120-Day Numeric Statute Report listed for CCP in lieu of Table 4.0. CCP was found to make the proper notations on the Numeric Statute Report as indicated in the IRM. HQ reviewed requested statute reports to ensure CCP was accurately reviewing the report. No concerns were found.

Action Item:

- By 5/15/2012, the FORT manager will email the CCP managers advising them to contact the field within 48 hours of receipt of an issue from the field. The CCP manager should send a copy of the response to the field, to the FORT manager. If additional issues arise, the FORT manager will have the history from the prior situation(s).

Meeting with Campus Support Manager

HQ met with Campus Support to discuss cases sent by the field for closure. In some instances, the field has a Tracking Number, but CCP does not receive the case. Campus Support is not part of Campus Reporting Compliance. Campus Support ensures that all mail received is routed as indicated on the shipper's label on the outside of the box. To reduce mail costs, the Field often includes other non-CCP items in the box. If the Field does not state "Consolidated" on the label, Campus Support will assume all items are related to the top-most item in the box.

Action Item:

- By 5/31/2012, HQ will make additional contacts with Campus Compliance Services and communicate information concerning mail issues to the field.

Meeting with Department Managers

HQ reviewed the processes performed prior to faxing a quick assessment to Accounting. One person in the team reviews quick assessments prior to faxing the documents. HQ suggested that partial assessments for multiple years should be assigned to the same examiner for input. Due to the large volume of partials faxed to CCP, not all years are received at the same time. Where possible, CCP will use one tax examiner for these situations. HQ found the tax examiners pull inventory reports on a weekly basis. HQ requested information to determine how the site determines what cases to work. HQ determined a quarterly validation is performed by the AIMS/ERCS analyst and a physical validation is performed at that time.

Action Items:

- HQ alerted CCP to immediately exercise caution when reviewing the Form 2859 to ensure the assessment is made for the correct tax period and TIN to reduce the possibility of making an incorrect assessment.
- By 5/15/2012, CCP will review all "special feature" cases that have tax examiner intervention. CCP will reconcile the bottom portion of Form 3198 with Form 5344 on the RGS screen to ensure the data is accurate prior to validating the case.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

- By 5/15/2012, HQ will contact the RGS liaison to discuss the issue of agents not validating cases prior to closing them to CCP.

Meeting with all CCP Managers – Day and Night Shifts

CCP has a large volume of overage inventory. HQ has been discussing these issues with the site over the last year (during and since the last program review in 2011, as HQ noticed the overage inventory rising). HQ noticed discrepancies in how CCP was pulling inventory reports. Report samples were reviewed during this visit by HQ. HQ determined most of the teams were pulling inventory by the status codes and not by the overall "date in function". The site was not working cases in "first-in, first-out order". HQ provided hands-on assistance with reports and shared various reports that will be helpful in reducing the age of the inventory. CCP requested to revert to closing cases on ERCS rather than waiting for the weekend download from ERCS to AIMS. HQ believes the result of the action items within this section will substantially reduce the overage volume in CCP. CCP Managers were elated to assist with this potential enhancement and to learn new ways to pull reports to reduce and monitor overage. The managers were excited to apply these new approaches.

Action Items:

- Beginning 3/30/2012, CCP will begin pulling reports based on the overall "date in function". Note: Status 54 will continue to be pulled by status code, due to the expedite treatment required for these cases.
- Between 3/29/2012 and 4/30/2012, CCP will begin closing cases on ERCS. This is a test between the stated dates. CCP will provide feedback to HQ on a weekly basis until the test period is complete.
- By 5/31/2012, HQ will make a decision at the end of this test to determine whether to continue this approach. More information can be found on the attached Methodology document.

Sensitive Command Codes

Currently, no written procedures for CCP as to what command codes are permissible for tax examiners or clerks when working on IDRS. A determination will need to be made as to who on the IDRS Security Staff would have answers to this issue. This appears to be a global situation and not only for CCP. HQ believes TIGTA is discussing this issue with IDRS Security.

Action Item:

- By 5/31/2012, HQ will discuss with TIGTA the next steps needed for this important issue.

Summary of Findings, Solutions, and Items to Consider:

Findings

- Causes of Overage Inventory
 - Increase in inventory
 - Decrease in staffing
 - Reports were pulled by Status Code vs. overall "date in function"
 - CEAS downtime
 - Mail delivery time has increased (USPS vs. UPS/FedEx)



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Solutions Identified During Visit

- **Generate Reports by Overall "date in function"** – HQ demonstrated a variety of methods to generate and filter inventory reports. Campus was generally not aware of the ability to pull reports by the overall "date in function". CCP agreed to use this approach to focus on the oldest cases in CCP. CCP will continue to focus on Status 54, due to the need to move these expedited cases.
- **Closing Case Test** – Campus will move all cases from status 5X to status 90 using ERCS between 3/29/2012 and 4/30/2012. This will allow CCP to view remaining inventory in real time instead of waiting until the end of each week.
- **Status 59** – CCP requested to reinstate the use of Status 59 for problem cases that need to be resolved by the FORT. HQ approved this idea during close out. This will reduce overage cases in the other statuses, reduce the time reconciling cases on overage reports, and move the accountability to the FORT unit. However, problem cases with imminent statutes should remain in Status 54 for monitoring by the Statute Team. CCP can begin utilizing this status immediately and move any existing problem cases in to this status.
- **HQ Analyst to Return to Campus** – The HQ CCP Analyst will return to the site by June 30, 2012 to follow up on issues addressed during this Program Review. Additional visits may be necessary.

Items to Consider

- **Appropriateness of Current Measures** (e.g. Days of Workable Inventory on Hand and acceptable days in each status code), due to receiving mail via USPS instead of UPS/FedEx and CEAS downtimes.
- **CEAS Downtimes** –
 - Contact Mary McLeish regarding P1/P2 Tickets vs. non-priority tickets
 - Analyze trends (e.g. problems on Mondays, Fridays, or end of month)
- **Reports** – Reduce duplication, increase consistency, HQ to send reports to P&A, transition most of the reports generation from HQ to P&A.
- **CCP Report** – Correct the cumulative calculation of Direct Staffing Percentage
- **Future Volumes from the Field** – HQ to contact Field Exam to obtain estimates of closures for the remainder of FY 2012 and for FY 2013.
- **Resources** – HQ will work with CCP to analyze what is needed and whether ratio funding is working.
- **Mail Room Issues** – Concern with mail room mishandling mail
 - Use of separate P.O. Box
 - Station a CCP employee in the mailroom during peak volume seasons
 - HQ to discuss issues with Mary McLeish
 - HQ to discuss with Liens
 - HQ to discuss with Ogden CCP
 - Communication approach with Field to correct labeling issues – possibly during CPE
 - Use of e-Fax – HQ to discuss with Mary McLeish to find out how this works when either the sender or receiver does/does not have e-Fax capabilities.

Attachment

cc: Director, Campus Compliance Services



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Campus Recommended Action Items

- HQ alerted CCP to immediately exercise caution when reviewing the Form 2859 to ensure the assessment is made for the correct tax period and TIN to reduce the possibility of making an incorrect assessment.
- CCP will immediately begin gathering data regarding miscellaneous forms received (other than Forms 3177 and 2363). Currently, these must be processed within 14 days of receipt. (HQ will address the issues with Field Exam.)
- CCP should continue to log the data for Forms 3177 and 2363 when received from the Field.
- CCP should continue to follow the guidelines issued by HQ on March 5, 2012 for reviewing Status 51 In-Transit listings.
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Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

- By 5/15/2012, CCP will review all "special feature" cases that have tax examiner intervention. CCP will reconcile the bottom portion of Form 3198 with Form 5344 on the RGS screen to ensure the data is accurate prior to validating the case.

Headquarters Recommended Action Items

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- By 5/15/2012, HQ CCP will pursue the request by TIGTA to develop a report for CCP to monitor these cases by the 9 and 17 days versus the Status 54 monitoring. HQ may consider removing this information from the IRM, since the case should be processed within 20 days of receipt.
- By 5/15/2012, HQ will correct a field in the Weekly Health Report. The formula for the cumulative direct staff percentage appears to have been changed in error.
- By 5/15/2012, HQ will contact the RGS Liaison to discuss the hash total reject process that does not appear to be working and concerns with letters from the field.
- By 5/15/2012, HQ will make the necessary contacts to determine whether the new functionality of E-fax will enhance the Form 3210 process.
- By 5/15/2012, HQ will contact the RGS liaison to discuss the issue of agents not validating cases prior to closing them to CCP.
- By 5/31/2012, HQ will make additional contacts with Campus Compliance Services and communicate information concerning mail issues to the field.
- By 5/31/2012, HQ will make a decision at the end of the ERCS test to determine whether to continue this approach. More information can be found on the attached Methodology document.
- By 5/31/2012, HQ will discuss with TIGTA the next steps needed for this important issue regarding sensitive command codes.
- By 6/30/2012 – HQ will address the following issues with Field Exam. (CCP will immediately begin gathering data regarding miscellaneous forms received (other than Forms 3177 and 2363). Currently, these must be processed within 14 days of receipt.)
- By 6/30/2012, HQ CCP Analyst will return to the site to follow up on issues addressed during this Program Review. Additional visits may be necessary.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Appendix VIII

Glossary of Terms

Area Office – A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.

Assessment Statute Expiration Date – The time period for which the IRS may assess tax. In general, the assessment statute expiration date is three years from the filing of the return, unless the return is filed before the due date (determined without regard to any extension of time to file), in which case the assessment statute expiration date is three years from the due date.

Audit Information Management System – A computer system used by the SB/SE Division Examination Operations function and others to control returns, input assessments/adjustments to the Master File, and provide management reports.

Barred Statute – A barred statute occurs when the assessment statute expiration date for an audit has expired which prohibits the IRS from assessing a tax deficiency on a taxpayer's account.

Campus – The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Centralized Case Processing - Examination – There are CCP Examination sites located in Cincinnati, Ohio; Memphis, Tennessee; and Ogden, Utah. Each group handles a specific process. The Cincinnati Campus processes all SB/SE Division Specialty Program tax audits, including employment, estate and gift, and excise. The Memphis Campus processes all SB/SE Division Field audits and also shares responsibility with the Cincinnati Campus in providing audit closure support for Large Business and International Division audits from Area Office 315 (International/Puerto Rico). The Ogden Campus processes all Large Business and International Division audits. While these three sites are responsible for closing audits, they also process survey, *i.e.*, non-examined, cases.

Examination Returns Control System – An automated inventory management system used to requisition tax returns, assign returns to examiners, change codes, such as status and project codes, and charge time. The ERCS can be used to control work that is not controlled on the AIMS, such as preparer penalties. The ERCS also provides real-time information in the form of screens and reports for management of the SB/SE and Large Business and International Divisions.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Field – Refers collectively to the following seven SB/SE Division Area Offices: 201 (North Atlantic), 202 (Central), 203 (South Atlantic), 204 (Midwest), 205 (Gulf States), 206 (Western), and 207 (California).

First-Line Manager – A group manager in the Examination function responsible for supervision of IRS examiners.

Fiscal Year – A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government’s fiscal year begins on October 1 and ends on September 30.

Full-Time Equivalent – A measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For FY 2011, one FTE was equal to 2,088 staff hours. For FY 2012, one FTE is equal to 2,088 staff hours.

IDRS Online Reports Services – An automated web-based program that provides IDRS security staffs, Unit Security Representatives, and the managers of IDRS users access to the IDRS security reports.

Integrated Data Retrieval System – IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer’s account records.

Master File –The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

National Quality Review System – The system allows national reviewers to evaluate audit files to determine whether examiners complied with quality attributes established by the IRS.

Report Generation Software – The software program utilized in the examination process to 1) compute corrected tax, interest, and penalties, and generate audit reports; 2) create various forms and letters; 3) allow examiners and reviewers to document their actions and findings; and 4) process and archive examination results.

Status Code – A two-digit alpha-numeric indicator that shows the current status of an audit.

Substitute for Return – a procedure by which the IRS is able to establish an account when the taxpayer refuses or is unable to file a tax return and information received indicates that a return should be filed.

Transaction Code – A three-digit code used to identify actions being taken on a taxpayer’s account.



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Appendix IX

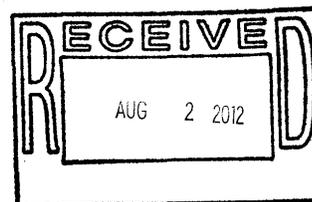
Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

AUG 1 2012



MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Faris R. Fink *Faris R. Fink*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – “Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts”
(Audit # 201130048)

Thank you for the opportunity to review your draft report titled: “Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts.” We appreciate your acknowledgement of the steps we have taken to resolve problems identified in your draft report. We agree with the recommendations and will reevaluate Recommendation 4 if current changes do not address the issue.

We have made significant progress addressing the concerns raised in Recommendations 5 and 6 concerning sensitive command codes. Additionally, tools and training material are being developed to address issues raised in the remaining recommendations.

We concur with the methodology used to calculate the outcome measures shown in your draft.

Attached is a detailed response outlining our corrective actions.

If you have any questions, please call me, or a member of your staff may contact Denice Vaughan, Director, SB/SE Campus Compliance Services at 404-338-8977.

Attachment



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

Attachment

RECOMMENDATION 1: The Director, Campus Reporting Compliance, should develop and implement additional procedures to ensure that all audits entering the CCP operation with short statute expiration dates and large dollar assessment amounts are timely and accurately assigned and processed in accordance with applicable procedures.

CORRECTIVE ACTION:

We agree with this recommendation. Campus Reporting Compliance (CRC) now utilizes the 120 day Numeric Statute Report, implemented July 1, 2012, to monitor and control statutes. Any statute cases that meet assessment criteria are pulled and reassigned to Status 54 for immediate resolution.

In addition, a new pop-up box will be implemented in the Integrated Automation Technologies (IAT) tool that will identify a case with an assessment of \$100,000 or more when the case is initially assigned by the Clerical Team.

IMPLEMENTATION DATE:

December 15, 2012

RESPONSIBLE OFFICIAL:

Director, Campus Reporting Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2: The Director, Campus Reporting Compliance should conduct a cost-benefit analysis to determine whether it would be beneficial to develop and implement systematic controls to ensure that the required quick assessments are performed on large dollar audits.

CORRECTIVE ACTION:

We agree with this recommendation and will work with the Small Business/Self-Employed Division (SB/SE) Research function to determine a reasonable sample review once the Integrated Automation Technologies tool that identifies cases over \$100,000 is implemented. The sample will be reviewed to determine if further systematic controls are needed.

IMPLEMENTATION DATE:

January 15, 2013



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RESPONSIBLE OFFICIAL:

Director, Campus Reporting Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3: The Director, Campus Reporting Compliance, should ensure that controls are developed and implemented to reduce the risk of audits being closed with incorrect assessment amounts, including comprehensive guidance to assist managers in conducting reviews of processing and posting audit results, and documenting the results of such reviews.

CORRECTIVE ACTION:

We agree with this recommendation, but believe responsibility for this action belongs with the Director, Examination, SB/SE. The SB/SE Examination function has developed comprehensive guidance regarding the necessity to validate cases to ensure accurate processing and posting of audit results. Managers and examiners will be trained on the new guidance.

IMPLEMENTATION DATE:

March 15, 2013

RESPONSIBLE OFFICIAL:

Director, Operations Support, Examination, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4: The Director, Campus Reporting Compliance, should coordinate with the Director, Exam Planning and Delivery, SB/SE regarding the feasibility of enhancing Form 3198 so that all audits with short statute expiration dates are appropriately identified.

CORRECTIVE ACTION:

The Form 3198 is used by the SB/SE Examination function to provide closing instructions to the Campus Case Processing (CCP) function. Campus Case Processing utilizes the 120 day Numeric Statute Report to monitor and control any short statute cases located within CCP. Any cases requiring assessment are reassigned



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to Status 54 for immediate resolution. After completion of the planned corrective action for Recommendation 1, we will re-evaluate the process to determine if enhancements to the Form 3198 would be helpful or needed.

IMPLEMENTATION DATE:

March 15, 2013

RESPONSIBLE OFFICIAL:

Director, Campus Reporting Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5:

The Director, Campus Reporting Compliance should develop and implement procedures for assigning, monitoring, and reviewing Memphis CCP function employees' access to and use of sensitive command code combinations.

CORRECTIVE ACTION:

We agree with this recommendation and have completed the needed corrective action. Training was provided to all managers to ensure appropriate monitoring and use of all command codes. The Planning & Analysis (P&A) staff will ensure that managers are adhering to appropriate monitoring by including this as part of the Directors annual review.

IMPLEMENTATION DATE:

Training was completed on June 15, 2012

RESPONSIBLE OFFICIAL:

Director, Campus Reporting Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

No additional monitoring should be needed.

RECOMMENDATION 6: The Director, Campus Reporting Compliance, should ensure that Memphis CCP function managers are adequately trained on the specific process for assigning, monitoring, and reviewing its employees' access to and use of sensitive command code combinations.



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CORRECTIVE ACTION:

We agree with this recommendation. Annual training on assigning, monitoring and reviewing employees Integrated Data Retrieval System access will be pushed to Memphis managers annually through the Enterprise Learning Management System.

IMPLEMENTATION DATE:

Initial training was completed on June 15, 2012.

RESPONSIBLE OFFICIAL:

Director, Campus Reporting Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

No additional monitoring should be needed.