



*Procedures Need to Be Updated to Ensure  
Proper Determinations of Tax Relief for  
Taxpayers Affected by Disasters*

**February 16, 2012**

**Reference Number: 2012-40-015**

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.

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## HIGHLIGHTS

### **PROCEDURES NEED TO BE UPDATED TO ENSURE PROPER DETERMINATIONS OF TAX RELIEF FOR TAXPAYERS AFFECTED BY DISASTERS**

## Highlights

**Final Report issued on February 16, 2012**

Highlights of Reference Number: 2012-40-015 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

### **IMPACT ON TAXPAYERS**

The purpose of the Disaster Assistance Program is for the IRS to provide tax relief to taxpayers affected by major disasters or emergencies. During these stressful and extraordinary situations, taxpayers and tax practitioners require disaster assistance to enable them to meet their obligations for filing tax returns or paying taxes without being penalized.

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

Each year disasters or emergencies affect millions of individuals and businesses throughout the United States. Complete and accurate IRS guidelines are needed to ensure affected taxpayers are provided appropriate tax relief. The overall objective of this review was to assess the efficiency and effectiveness of the IRS's disaster relief assistance.

### **WHAT TIGTA FOUND**

The IRS has developed processes and procedures that help ensure taxpayers adversely affected by a major disaster or emergency are afforded tax relief. However, the IRS Disaster Assistance Program guidelines were incomplete and inaccurate. They did not reflect the processes and procedures used by employees to assess disasters and grant tax relief to affected individuals and businesses.

In addition, the Program Office is not documenting the assessment of the severity and scope of damage for each Federally declared disaster when determining the length and type of tax relief to be granted. Without formal

documentation, there is no evidence to support the determination for external stakeholders.

Finally, the IRS did not always timely release disaster relief indicators from individual tax accounts. Our analysis of tax accounts as of December 31, 2010, identified 597,513 individual tax accounts with an erroneous active disaster relief indicator. This was subsequently corrected when the IRS moved these accounts back to the Individual Master File. Although the disaster relief indicators were not timely released, none of the individuals received erroneous tax relief benefits.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the Commissioner, Small Business/Self-Employed Division, ensure that guidelines are updated to reflect the current processes and procedures used to assess Federally declared disasters and grant tax relief to affected individuals and businesses. Guidelines should include a detailed description of the assessment and documentation prepared for the review of the unique facts and circumstances of each disaster, including the severity and scope of damage, when determining the disaster relief period and type of tax relief to be granted. TIGTA also recommended that the IRS develop programming to systemically release the disaster relief indicators on tax accounts stored on a database other than the Individual Master File.

In its response to the report, the IRS agreed with our recommendations. The IRS plans to revise the Internal Revenue Manual to reflect current processes and procedures utilized by the Disaster Program Office, which will include procedures to determine appropriate relief levels. The IRS also plans to ensure that programming is in place to systemically release disaster relief indicators for tax accounts stored in a database other than the Individual Master File.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

February 16, 2012

**MEMORANDUM FOR** COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED  
DIVISION

*Michael R. Phillips*

**FROM:**

Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Procedures Need to Be Updated to Ensure Proper  
Determinations of Tax Relief for Taxpayers Affected by Disasters  
(Audit # 201140034)

This report presents the results of our review to assess the efficiency and effectiveness of the Internal Revenue Service's disaster relief assistance. This audit was included in our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Taxpayer Protection and Rights.

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

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 Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.



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## *Abbreviations*

CADE	Customer Account Data Engine
FEMA	Federal Emergency Management Agency
IRS	Internal Revenue Service



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## *Background*

Each year disasters or emergencies affect millions of individuals and businesses throughout the United States. During these stressful and extraordinary situations, taxpayers and tax practitioners require disaster assistance to enable them to meet their tax obligations.

When a disaster or emergency occurs and if the situation is beyond the capabilities of local and State authorities, the Governor of the affected State requests that the President of the United States declare a major disaster or emergency. When a disaster is Federally declared, immediate notification is made to the Governor, members of Congress, and the Federal Emergency Management Agency (FEMA). At that time, the FEMA appoints one of its employees as the Federal Coordinating Officer to assess the damage and make an initial appraisal of the types of relief most urgently needed by the affected citizens and public officials. The FEMA also coordinates with all Federal disaster assistance programs, including that of the Internal Revenue Service (IRS).

***During Calendar Years 2010  
and 2011 (through June 30),  
there were 128 Federally  
declared disasters throughout  
the United States.***

After the FEMA assesses the damage, it issues a Disaster Declaration to notify the IRS Disaster Assistance Program Office of general disaster information and the specific counties within the disaster area designated as eligible for assistance. There are three types of assistance given by the FEMA:

- **Emergency Measures** – Include actions before, during, and after a disaster to save lives, protect public health and safety, and prevent damage to improved public and private property.
- **Public Assistance** – Provides assistance to State and local governments for the repair or replacement of disaster-damaged public facilities. The Public Assistance Grant Program provides grants to State and local governments and certain private nonprofit agencies to respond to disasters, recover from their impact, and mitigate the impact from future disasters.
- **Individual Assistance** – Provides assistance to families and individuals. Federal assistance is available for individuals and businesses in need of temporary housing, unemployment payments, housing repairs, medical assistance, and similar types of benefits.



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The IRS relies on the specific type of assistance the FEMA gives to determine if it should provide disaster assistance. The IRS grants tax relief only to those individuals and businesses located in counties given Individual Assistance by the FEMA. Once Individual Assistance is given by the FEMA to the specific counties impacted by the disaster, the IRS Disaster Assistance Program Office prepares an internal Disaster Relief Memorandum<sup>1</sup> to provide key IRS functions with a summary of the tax relief. Individuals and businesses located in those counties eligible for tax relief are identified by zip code.

To provide tax relief to these individuals and businesses, the IRS places a disaster relief indicator on their tax accounts. The disaster relief indicator is intended to postpone the time to file tax returns and pay taxes and to abate penalty and interest on current taxes due. In the most catastrophic disasters, tax relief includes suspending certain activities (*e.g.*, collection of delinquent taxes, performance of audits). In addition to the disaster relief indicator, additional information is placed on the tax accounts, including a FEMA number that identifies the Federally declared disaster and the disaster relief period (beginning and ending dates). Figure 1 provides key statistics on the 34 Federally declared disasters for which taxpayers were granted tax relief during the period covered by our review (Calendar Years 2010 and 2011 (through June 30)).

***Figure 1: Key Statistics of IRS Disaster Assistance in Calendar Years 2010 and 2011 (Through June 30)***

	Calendar Year	
	2010	2011 (through June 30)
<b>Disasters for Which Tax Relief Was Granted</b>	18	16
<b>Individuals Granted Tax Relief</b>	27,063,733	16,196,810
<b>Businesses<sup>2</sup> Granted Tax Relief</b>	4,105,853	3,041,566
<b>Other Entities<sup>3</sup> Granted Tax Relief</b>	2,026,302	508,073
<b>Total</b>	<b>33,195,888</b>	<b>19,746,449</b>

Source: <http://www.icce.irs.gov/fema>, Individual Master File,<sup>4</sup> and Business Master File.<sup>5</sup>

<sup>1</sup> A Disaster Relief Memorandum is an internal document issued to notify IRS personnel that tax relief has been granted associated with a Federally declared disaster. It includes a summary of the relief (such as the counties eligible for tax relief), the disaster relief period (beginning and ending dates), and the type of tax relief granted.

<sup>2</sup> Businesses include corporations, partnerships, *etc.*

<sup>3</sup> Other entities include trusts and estates.

<sup>4</sup> The IRS database that maintains transactions or records of individual tax accounts.

<sup>5</sup> The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.



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This review was performed at the IRS Disaster Assistance Program Office, Small Business/Self-Employed Division, Stakeholder Liaison Headquarters, and Modernization and Information Technology Services Headquarters located in Lanham, Maryland, during the period April through September 2011. 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, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

The IRS has developed processes and procedures that help ensure taxpayers adversely affected by a major disaster or emergency are afforded tax relief. These processes and procedures include:

- Establishing the Disaster Assistance and Emergency Relief Program Office. This office has overall responsibility for the IRS's disaster assistance and emergency relief efforts. This office has primary responsibility for determining and coordinating disaster relief activities, including serving as the IRS's representative to the FEMA and other Federal and State agencies.
- Ensuring disaster assistance is provided to eligible individuals and businesses when Individual Assistance is given by the FEMA. Our analysis of the 34 Federally declared disasters for which tax relief was granted showed that the IRS accurately identified individuals and businesses located in zip codes eligible for tax relief and timely and accurately input disaster relief indicators on their tax accounts.
- Providing IRS presence at FEMA Disaster Recovery Centers. As part of the IRS's disaster relief efforts, specific IRS employees have been designated as State Disaster Assistance Coordinators. These employees provide assistance to affected taxpayers by answering tax questions and ensuring tax forms and publications are available. For example, IRS employees were present at FEMA Centers for 26 (76 percent) of 34 disasters for which tax relief was granted and assisted more than 3,500 taxpayers. For the remaining eight disasters for which taxpayers were granted tax relief, IRS employees were not present because FEMA Centers were not set up or IRS presence was not requested by the FEMA.
- Providing IRS operating divisions and functions with notification, guidance, and support when disasters are Federally declared. For each of the 128 disasters that occurred and the 34 disasters for which tax relief was granted in Calendar Years 2010 and 2011 (through June 30), the Program Office issued Disaster Declarations<sup>6</sup> and Disaster Relief Memorandums to personnel in IRS operating divisions and functional areas.
- Communicating to individuals and businesses affected by a Federally declared disaster that tax relief has been granted. The IRS takes a number of steps to alert individuals and

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<sup>6</sup> An IRS Disaster Declaration (as opposed to the Disaster Declaration issued by FEMA that was mentioned earlier) is an internal document issued to notify IRS functions that a disaster or emergency has been Federally declared. It includes general disaster information such as the date that the disaster was Federally declared, impacted State(s), FEMA number, type of incident, incident period, and types of assistance given by the FEMA.



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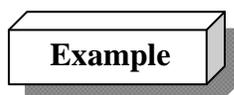
businesses affected by a Federally declared disaster. These steps include news and press releases, informational postings on IRS.gov, and sending staffer Notice 1155, *Disaster Relief from the IRS*, to taxpayers eligible for tax relief who have prior tax issues (i.e., delinquent taxes and tax returns). See Figure 2 for an excerpt from Notice 1155.

**Figure 2: Notice 1155, Disaster Relief from the IRS**

 Department of the Treasury Internal Revenue Service	Notice 1155 (EN/SP) <b>Disaster Relief from the IRS</b>
<p>If you have been impacted by the recent disaster in your area and are unable to meet your tax obligations, the IRS may be able to assist with payment and filing extensions, and if qualified, with an expedited tax refund for casualty losses. Please call the IRS Disaster Hotline at 1-866-562-5227 to find out what type of administrative tax relief is available.</p> <p>For assistance in calculating any disaster loss, please call 1-800-829-3676 and order Publication 2194, <i>Disaster Losses Kit for Individuals</i> or Publication 2194-B, <i>Disaster Losses Kit for Businesses</i>. If you have access to the Internet you may log on to <a href="http://www.irs.gov">www.irs.gov</a> and use the keyword "disaster" to view additional information.</p>	

Source: IRS Notice 1155.

- Providing a dedicated toll-free disaster hotline for individuals and businesses to obtain information regarding disaster assistance and providing the ability for individuals and businesses that may not reside in a disaster area to seek tax relief. During Fiscal Year 2010, the IRS indicated 50,550 calls were received on its disaster assistance hotline. In addition, 1,084 individuals and 132 businesses were manually granted disaster tax relief in Calendar Year 2010.



*A tax practitioner's records were destroyed in a Federally declared flood, but some of the practitioner's clients did not reside in the area given Individual Assistance; therefore, the IRS did not grant tax relief to those clients. Those clients can self-identify and obtain tax relief by calling the IRS Disaster Hotline. The IRS will manually input the disaster relief indicator on their tax accounts.<sup>7</sup>*

**IRS Disaster Assistance Program Guidelines Are Incomplete and Inaccurate**

The IRS Disaster Assistance Program has effective processes and procedures for assessing Federally declared disasters and granting tax relief to affected individuals and businesses. However, the processes and procedures are not completely and accurately documented in its guidelines. For example, the Disaster Assistance Program Office does not document the

<sup>7</sup> This is a hypothetical example.



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assessment of the severity and scope of damage for each disaster when determining the length and type of tax relief to be granted. Personnel assigned to the Disaster Assistance Program have extensive experience when assessing the severity and scope of damage for disasters and granting tax relief to affected taxpayers. However, if changes in personnel occur, the continuity of the assessments could be at risk as a result of not documenting these processes in the guidelines.

The Internal Revenue Manual is the IRS's principal guideline and includes Disaster Assistance Program processes and procedures, such as administrative and cross-functional guidance for responding to disasters or emergencies. These guidelines should be the primary source for instructions that IRS staff need to carry out their responsibilities in administering the Disaster Assistance Program.

Our review found that the guidelines do not always accurately reflect the Disaster Assistance Program processes and procedures that are used by employees to assess Federally declared disasters and grant tax relief to affected individuals and businesses. For example, procedures were not updated on the following processes:

- **FEMA Assessment** – The Disaster Assistance Program Office uses the FEMA's assessment of a Federally declared disaster when determining if tax relief will be granted. Specifically, tax relief is granted for all disasters where the FEMA provides Individual Assistance. The guidelines state that the FEMA assessment is "generally" used when, in fact, it is the sole basis for the IRS granting tax relief.
- **Identification of Disaster Areas** – The Disaster Assistance Program Office prepares a Disaster Relief Memorandum that includes the various counties identified by the FEMA for Individual Assistance and the tax relief granted by the IRS. This Memorandum is provided to the Modernization and Information Technology Services function, which then identifies the zip codes within the counties granted tax relief using a United States Postal Service software package. Disaster relief indicators are placed on the tax accounts of businesses and individuals residing within these zip codes. The guidelines incorrectly state that the Program Office identifies the zip codes using information from the United States Census Bureau.
- **Assessment of Disaster Severity and Scope of Damage** – The Disaster Assistance Program Office has no process to document the assessment of the severity and scope of damage (see below). The guidelines incorrectly state that the Program Office assesses the severity and scope of each disaster and documents this assessment using a *Disaster Relief Assessment and Recommendations Checklist*. The Program Office does not use this checklist.

The Disaster Assistance Program Office also has the ability to gather facts and circumstances to determine the severity and scope of damage for each disaster through media reports and independent damage assessments prepared by IRS Disaster Assistance Coordinators. According to the guidelines, the length and type of tax relief granted should be based on an assessment of



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the disaster's severity and scope. The Internal Revenue Code<sup>8</sup> allows the IRS to grant up to one year of tax relief, and the guidelines allow for two types of tax relief to be granted:

- **Standard Tax Relief** – Grants postponements of time to file tax returns and pay current taxes due. The IRS may also abate penalty and interest on current taxes due without suspending compliance activities.
- **Standard Tax Relief with Limited Compliance Relief** – Grants the standard tax relief while also suspending mailing of notices, collection of delinquent taxes, and performance of audit activities for the most catastrophic disasters. The use of standard tax relief with limited compliance relief should be based on the following factors: number of casualties and displaced persons; extent of housing damage; environmental damage (e.g., contaminated water); infrastructure damage (e.g., roads and highways); severity of economic or physical damage to key industries, and incapacitated local governments. The last time standard tax relief with limited compliance relief was granted to affected taxpayers was in Calendar Year 2009.

We found no documentation supporting the assessment of the severity and scope when determining the length and type of tax relief granted to affected taxpayers during Calendar Years 2010 and 2011 (through June 30). Without formal documentation, there is no evidence to support the determination for external stakeholders.

On August 29, 2011, we notified Disaster Assistance Program management that the current processes and procedures used for assessing disasters and granting tax relief to affected individuals and businesses are not reflected in their guidelines. We recommended that the IRS update its guidelines to reflect the current processes. Management agreed with our recommendation and will ensure that the Disaster Assistance Program guidelines are updated. To maintain the accuracy of these guidelines, the Program Office must review the guidelines annually for items that are subject to periodic changes. They must revise the guidelines to incorporate process improvements or changes in procedures. Management indicated that the last revision made to the Disaster Assistance Program guidelines was in March 2011. However, we found this update did not include any revisions to reflect the current processes and procedures used to assess disasters and grant tax relief to affected individuals and businesses.

## ***Recommendation***

***Recommendation 1:*** The Commissioner, Small Business/Self-Employed Division, should ensure that the guidelines are updated to reflect current processes and procedures used to assess Federally declared disasters and grant tax relief to affected individuals and businesses. The guidelines should include a detailed description of the assessment and documentation prepared

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<sup>8</sup> Internal Revenue Code § 7508A.



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for the review of the unique facts and circumstances of each disaster, including the severity and scope of damage, when determining the disaster relief period and type of tax relief to be granted.

**Management's Response:** IRS management agreed with the recommendation and will revise the Internal Revenue Manual to reflect current processes and procedures used by the Disaster Assistance Program Office. The revision will also include procedures to determine the appropriate relief levels.

### ***Disaster Relief Indicators Were Not Always Timely Released***

The IRS did not always timely release disaster relief indicators from individual tax accounts.<sup>9</sup> Analysis of tax accounts as of December 31, 2010, identified 597,513 individual tax accounts with an erroneous active disaster relief indicator. These erroneous indicators were on the accounts more than two years after the disaster relief period ended. Each of these tax accounts still had an active disaster relief indicator from two disasters, one that occurred in October 2007 and one in November 2008. The disaster relief periods were to end in January 2008 and February 2009, respectively. Not timely releasing disaster indicators could cause erroneous postponements of the time to file tax returns and pay taxes and the erroneous abatement of penalties and interest.

On August 1, 2011, we notified IRS management that 597,513 individual tax accounts had active disaster relief indicators that had not been timely released. We recommended that the IRS identify and correct the individual tax accounts. IRS management responded that they agreed with our recommendation and would ensure that the erroneous disaster relief indicators were released. After further review of these individual accounts and the activity subsequent to the disaster relief period ending, we found that, although the disaster relief indicators were not timely released, none of the individuals received erroneous tax relief benefits.

Active disaster relief indicators should systemically release from tax accounts once the current date exceeds the disaster relief period ending date. However, for these accounts, IRS management notified us that the disaster relief indicators were not timely released due to a programming problem that existed with the Customer Account Data Engine (CADE). The CADE was the IRS's modernized account information computer system and was intended to eventually replace the Individual Master File. The IRS has since made a decision to no longer store tax accounts on the CADE. Based on this decision, the IRS moved the tax accounts stored on the CADE back to the Individual Master File in June 2011. The movement of these tax accounts back to the Individual Master File triggered the release of the erroneous active disaster relief indicators because systemic programming was in place to properly release the indicators.

The IRS needs to ensure programming is in place to systemically release disaster relief indicators when tax accounts are moved from the Individual Master File to its modernized database that

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<sup>9</sup> Our review did not identify any business tax accounts where disaster relief indicators were not timely removed.



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processes and stores tax accounts. For Filing Season<sup>10</sup> 2012, the IRS will be implementing the first phase of the CADE 2, a modernized system that moves the IRS to daily processing of individual tax returns and initializes a modernized relational database. However, no definite date has been established for when the IRS anticipates replacing the Individual Master File with the CADE 2.

### ***Recommendation***

***Recommendation 2:*** The Commissioner, Small Business/Self-Employed Division, should ensure programming is in place to systemically release disaster relief indicators when tax accounts are stored on a database other than the Individual Master File.

***Management's Response:*** IRS management agreed with the recommendation. The Individual Master File has programming in place for the systemic release of disaster relief indicators. The IRS will ensure that when tax accounts are stored in a database other than the Individual Master File, this programming will be in place. As part of the CADE 2 solution, the database will mirror the Individual Master File in all regards.

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<sup>10</sup> The period from January through mid-April when most individual income tax returns are filed.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to assess the efficiency and effectiveness of the IRS's disaster relief assistance. To accomplish our objective, we:

- I. Determined if procedures used by the IRS to assess Federally declared disasters and grant tax relief were effective.
  - A. Interviewed management and discussed the processes and procedures for assessing Federally declared disasters and granting tax relief to affected individuals and businesses.
  - B. Determined whether established procedures were effective for assessing the severity and scope of Federally declared disasters.
    1. Determined if sufficient disaster information was provided by the FEMA to efficiently and effectively assess Federally declared disasters.
    2. Reviewed IRS Disaster Declarations and Disaster Relief Memorandums for Federally declared disasters that occurred in Calendar Years 2010 and 2011 (through June 30).
  - C. Determined whether established procedures were effective for determining that tax relief was necessary for individuals and businesses affected by a Federally declared disaster.
  - D. Assessed the effectiveness of the processes and procedures for manually inputting disaster relief indicators on taxpayer accounts for taxpayers who self-identify.
  - E. Determined if timeliness standards were in place and were effective for assessing Federally declared disasters and granting tax relief to affected individuals and businesses.
- II. Evaluated the effectiveness of IRS processes and procedures for identifying affected individuals and businesses located in zip codes eligible for tax relief in Calendar Years 2010 and 2011 (through June 30).
  - A. Interviewed management and discussed the processes and procedures for identifying individuals and businesses located in zip codes eligible for tax relief.
  - B. Determined the effectiveness of the established processes and procedures for identifying individuals and businesses located in the zip codes eligible for tax relief.



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- C. Assessed whether the IRS accurately identified the zip codes eligible for tax relief based on the counties given Individual Assistance by the FEMA.
  - 1. Using the counties given Individual Assistance by the FEMA, we identified the number of zip codes eligible for tax relief using United States Census Bureau data (<http://www.census.gov>).
  - 2. Using the counties given Individual Assistance by the FEMA, we identified the number of zip codes eligible for tax relief using <http://www.zip-codes.com>, which uses the United States Postal Service software package.
  - 3. Using the counties given Individual Assistance by the FEMA, we compared the number of zip codes we identified from <http://www.zip-codes.com> to the number of zip codes that the Modernization and Information Technology Services organization identified for systemic input of the disaster relief indicator and determined whether the IRS was accurately identifying all zip codes eligible for tax relief.
- III. Evaluated the effectiveness of IRS processes and procedures for setting and releasing disaster relief indicators on individual and business tax accounts in Calendar Years 2010 and 2011.
  - A. Interviewed management and discussed the processes and procedures for setting and releasing disaster relief indicators on individual and business tax accounts eligible for tax relief.
  - B. Determined the accuracy and timeliness of the input and release of disaster relief indicators on individual and business tax accounts eligible for tax relief in Calendar Year 2010.
    - 1. Analyzed a computer extract dated December 31, 2010, that identified individual and business taxpayers with a disaster relief indicator set on their tax accounts.
    - 2. Assessed the reliability of the computer extract by selecting a judgmental sample of 10 individual records and 10 business records and comparing certain fields (e.g., Transaction Code 971) to the IRS's Integrated Data Retrieval System<sup>1</sup> records.
    - 3. Identified the number of individual and business accounts that were manually input by analyzing the Document Locator Number of Transaction Code 971 and Action Code 688.

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<sup>1</sup> IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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4. Determined if disaster relief indicators were accurately and timely released from the individual and business tax accounts when the current date exceeded the disaster ending date (secondary date).
  5. Identified and analyzed the individual and business tax accounts located in a zip code eligible for tax relief that did not receive a disaster relief indicator on their accounts.
  6. Identified and analyzed the individual and business tax accounts not located in a zip code eligible for tax relief that received an erroneous disaster relief indicator on their tax accounts.
- C. Determined the accuracy and timeliness of the input and release of disaster relief indicators on individual and business tax accounts eligible for tax relief in Calendar Year 2011.
1. Analyzed a computer extract dated June 18, 2011, that identified individual and business taxpayers with a disaster relief indicator on their tax accounts.
  2. Assessed the reliability of the computer extract by selecting a judgmental sample of 10 individual records and 10 business records and comparing certain fields (e.g., Transaction Code 971) to the IRS's Integrated Data Retrieval System records.
  3. Determined if disaster relief indicators were accurately and timely released as of July 29, 2011, from individual and business tax accounts when the current date exceeded the disaster ending date (secondary date).
- IV. Determined whether the IRS has an effective communication and outreach plan to notify IRS operating divisions that tax relief has been granted and the individuals and businesses eligible for tax relief.
- A. Interviewed management and discussed the processes and procedures for notifying taxpayers affected by a Federally declared disaster who are eligible for tax relief.
  - B. Determined if the IRS accurately and timely sent Notice 1155, *Disaster Relief from the IRS*, to individuals and businesses affected by a Federally declared disaster.
  - C. Determined the number of individuals and businesses eligible for tax relief that were not sent Notice 1155.
  - D. Determined the efficiency and effectiveness of alternate sources the IRS used to communicate the tax relief available to eligible individuals and businesses.
  - E. Determined if a toll-free number was available for assistance and if individuals had the ability to self-identify.



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**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: the Internal Revenue Manual and the IRS policies, procedures, and practices for providing disaster assistance. We evaluated these controls by interviewing management, examining applicable information, and reviewing the accounts of individuals and businesses that had received disaster relief indicators on their tax accounts.



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**Appendix II**

*Major Contributors to This Report*

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Russell P. Martin, Director

Edward Gorman, Audit Manager

Stephen A. Elix, Lead Auditor

John Jarvis, Auditor

Brian Hattery, Information Technology Specialist

Bonnie Shanks, Referencer



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## **Appendix III**

### *Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Deputy Commissioner, Small Business/Self-Employed Division SE:S  
Deputy Commissioner of Operations, Wage and Investment Division SE:W  
Chief, Technology Officer OS:CTO  
Director, Communications, Liaison and Disclosure SE:S:CLD  
Director, Accounts Management SE:W:CAS:AM  
Director, Stakeholder Liaison Headquarters SE:S:CLD:SL:HQ  
Director, Stakeholder Liaison Field Operations SE:S:CLD:SL:F  
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 Liaisons: Commissioner, Small Business/Self-Employed Division SE:S  
Chief, Program Evaluation and Improvement, Wage and Investment Division  
SE:W:S:PEI



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*Procedures Need to Be Updated to Ensure Proper Determinations  
of Tax Relief for Taxpayers Affected by Disasters*

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## **Appendix IV**

### *Outcome Measure*

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

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Actual; 597,513 individual tax accounts had an erroneous active disaster relief indicator as of December 31, 2010 (see page 8).

#### **Methodology Used to Measure the Reported Benefit:**

We obtained a computer extract from the Data Center Warehouse, Individual Master File<sup>1</sup> Entity Table, where the disaster indicator field was equal to '01' (active) as of cycle 201052 (December 31, 2010). We identified 597,513 individual tax accounts that still had an active disaster relief indicator from two disasters that occurred, one in October 2007 and one in November 2008. The disaster relief periods were to end in January 2008 and February 2009, respectively. After further review of these individual accounts and the activity subsequent to the disaster relief period ending, we found that they were all eligible for tax relief and none of them received erroneous tax relief benefits.

Active disaster relief indicators should systemically release from tax accounts once the current date exceeds the disaster ending date (secondary date).

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<sup>1</sup> The IRS database that maintains transactions or records of individual tax accounts.



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**Appendix V**

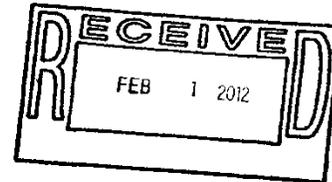
*Management's Response to the Draft Report*



COMMISSIONER  
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

FEB 01 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 – Procedures Need to be Updated to Ensure  
Proper Determinations of Tax Relief for Taxpayers Affected by  
Disasters (Audit #201140034)

Thank you for the opportunity to review your draft report titled "Procedures Need to be Updated to Ensure Proper Determinations of Tax Relief for Taxpayers Affected by Disasters." We appreciate your recognition of our efforts to provide systemic filing and payment relief to taxpayers affected by qualifying disasters.

As you acknowledged in your report, the IRS has developed processes and procedures that help ensure taxpayers adversely affected by a major disaster or emergency are afforded tax relief. The policies we have in place have allowed us to grant tax relief to 33,195,888 individuals and businesses in Calendar Year 2010 and 19,746,449 individuals and businesses through June 30 of Calendar Year 2011. We agree with your recommendation, and have developed a corrective action plan, to improve documentation of IRS guidelines to properly reflect the processes and procedures used by employees to assess disasters and grant tax relief to affected taxpayers. In addition, we will improve the documentation of the IRS assessment of the severity and scope of damage for each federally declared disaster when determining the length and type of tax relief to be granted.

Your report noted the IRS did not always timely release disaster relief indicators from individual tax accounts. This was corrected when the IRS moved these accounts back to the Individual Master File (IMF). Although the disaster relief indicators were not released timely, none of the individuals received erroneous tax relief benefits. You recommend that the IRS develop programming to systemically release the disaster relief indicators on tax accounts stored on a database other than the IMF. We agree with this recommendation. Individual Master File has programming in place for the systemic release of disaster relief indicators. IRS will ensure that when tax accounts



*Procedures Need to Be Updated to Ensure Proper Determinations  
of Tax Relief for Taxpayers Affected by Disasters*

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are stored in a database other than the Individual Master File, this programming will be in place. As part of the CADE2 solution, the database will mirror Individual Master File in all regards.

Attached are our responses to your recommendations. If you have questions, please call me, or a member of your staff may contact Karen M. Taylor, Acting Chief, Stakeholder Liaison Headquarters, Communication & Stakeholder Outreach, Small Business/Self-Employed Division at (202) 283-2559.



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Attachment

**RECOMMENDATION 1**

The Commissioner, Small Business/Self-Employed Division, should ensure that the guidelines are updated to reflect current processes and procedures used to assess federally declared disasters and grant tax relief to affected individuals and businesses. The guidelines should include a detailed description of the assessment and documentation prepared for the review of the unique facts and circumstances of each disaster, including the severity and scope of damage, when determining the disaster relief period and type of tax relief to be granted.

**CORRECTIVE ACTION**

We agree and will revise Internal Revenue Manual 25.16.1 to reflect current processes and procedures utilized by the Disaster Program Office. The revision will also include procedures to determine appropriate relief levels.

**IMPLEMENTATION DATE**

July 15, 2012

**RESPONSIBLE OFFICIAL**

Chief, Stakeholder Liaison Headquarters, Communications & Stakeholder Outreach,  
Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this action as part of our internal management control process.

**RECOMMENDATION 2**

The Commissioner, Small Business/Self-Employed Division, should ensure programming is in place to systemically release disaster relief indicators when tax accounts are stored on a database other than the Individual Master File.

**CORRECTIVE ACTION**

We agree with this recommendation. Individual Master File has programming in place for the systemic release of disaster relief indicators. IRS will ensure that when tax accounts are stored in a database other than the Individual Master File, this programming will be in place. As part of the CADE2 solution, the database will mirror Individual Master File in all regards.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

Associate Chief Information Officer, Applications Development

**CORRECTIVE ACTION MONITORING PLAN**

N/A