



Treasury Inspector General for Tax Administration Office of Audit

CONSISTENT AND EFFECTIVE MANAGEMENT INVOLVEMENT IS NEEDED IN RESOLVING DISAGREEMENTS OVER AUDIT RESULTS

Issued on August 7, 2009

Highlights

Highlights of Report Number: 2009-30-103 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Consistent and effective managerial involvement in resolving disagreements over audit results can reduce additional costs to both taxpayers and the Internal Revenue Service (IRS). At a minimum, it should result in the taxpayers or their representatives having a clear understanding of the Federal Government's position and, thereby, promote positive customer relations.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of TIGTA's Fiscal Year 2008 Annual Audit Plan under the major management challenge of Human Capital. The overall objective of this review was to determine whether reviews conducted by group managers are effective tools in managing the outcome of field audits in the Small Business/Self-Employed Division.

WHAT TIGTA FOUND

The policy of the IRS is to resolve disagreements in audits at the lowest practical level. The initial step in the resolution process is for the group manager to contact the taxpayer to either resolve the disagreement or understand the basis for the disagreement. This step is critical because managerial involvement in disagreements can result in a taxpayer's full or partial agreement with the audit, which can reduce additional costs to both the IRS and taxpayers by avoiding a protracted dispute resolution process.

TIGTA determined that in 24 (63 percent) of 38 audits the level of managerial involvement was insufficient because the group manager did not contact the taxpayer or taxpayer's representative in an attempt to reach agreement on the results of the audit. TIGTA found the guidance for group managers to be detailed and adequate. Group managers consider their involvement in audits critical to the success of audit outcomes, but indicated that administrative demands on their time hamper their ability to be more involved in audits.

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Another more fundamental cause may be the attitude of the group managers regarding the value of attempting to contact taxpayers to reach agreement on audit results.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Examination, Small Business/Self-Employed Division, reemphasize to group managers the importance and need to be actively involved in securing agreement to the results of audits when agreement could not be obtained by the examiners. TIGTA also recommended that the Director, Examination, Small Business/Self-Employed Division, share the observations made in this report with the Small Business/Self-Employed Division Management Advisory Council and the Workforce of Tomorrow Task Force for use in their efforts to enhance the role of managers and to address administrative burden.

In their response to the report, IRS officials agreed with the recommendations and stated they plan to take actions to address them. The IRS plans to publish an article in the *Technical Digest*, an internal publication, detailing the importance of group manager involvement in securing agreement to audit results when an agreement could not be obtained by the examiner. The IRS also plans to reemphasize the importance of managerial involvement during a conference call with the Area Technical Analysts. In addition, the IRS plans to share our report with the Management Advisory Council and the Human Capital Office, which assumed responsibility for the action items originating from the Workforce of Tomorrow Task Force.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2009reports/200930103fr.pdf>

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