



Treasury Inspector General for Tax Administration Office of Audit

THE DISCRETIONARY EXAMINATION PROGRAM PERFORMANCE RESULTS ARE INCOMPLETE; THEREFORE, SOME MEASURES ARE OVERSTATED AND INACCURATE

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Highlights

Highlights of Report Number: 2009-40-099 to the Internal Revenue Service Commissioner for the Wage and Investment Division and the Director, Office of Research, Analysis, and Statistics.

IMPACT ON TAXPAYERS

The Wage and Investment Division's Discretionary Examination Program (Program) conducts correspondence audits by requesting that taxpayers provide documents within a limited time period to support questionable items on their individual tax returns. Program management is providing oversight, accountability, and monitoring of its performance results to meet established Program goals; however, management is excluding significant audit results and time used to conduct the audits. In addition, the Program is experiencing significant mail processing delays. The mail processing delays could prevent the correspondence from being processed timely, which could increase taxpayer burden by requiring the taxpayer to provide the requested documents multiple times.

WHY TIGTA DID THE AUDIT

This audit was initiated because the Program is a major IRS operation used to ensure, improve, and enforce compliance activities. The Program does so by providing audit coverage to taxpayers who file individual tax returns without claiming the earned income tax credit. For Fiscal Year 2007, the Program generated more than \$784 million in tax assessments from approximately 235,000 correspondence audits.

Also, the audit was initiated to evaluate 1) case selection and processing in the Program; 2) the productivity of the Program, including overall changes in workload, case cycle time (length of time to work a case), and case closures; and 3) the impact audit reconsiderations (reevaluation of previously closed audits) had on the Program's results.

WHAT TIGTA FOUND

With management oversight, accountability, and monitoring of its performance results, the Program met its established goals for Fiscal Years 2005 through 2007. However, Program management is excluding significant audit reconsideration results and time used to conduct these audits (cycle time) from operational reports submitted to executives. This has contributed to the Program's operational results being inaccurate and overstated. In addition, the Program is experiencing significant mail processing delays.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, coordinate with the Office of Research, Analysis, and Statistics to identify the methodology for computing the audit reconsideration results and reconcile the reported results to the Program's work-plan reports and tracking system to ensure the results are correctly reflected and to evaluate program productivity. In addition, TIGTA recommended the Commissioner, Wage and Investment Division, modify the Program's operational reports to include all audit reconsideration cycle time in its audit closure results.

In their response to the report, IRS officials agreed with one of our two recommendations. Program management and staff plan to coordinate with the Office of Research, Analysis, and Statistics to obtain an understanding of the programming logic supporting the current Audit Reconsideration report. IRS management disagreed that the Program's operational reports should be modified to include audit reconsideration cycle time in its audit closure results, citing cost prohibitive programming and difficulty supporting the need for changes as the reasons.

TIGTA understands the concern with cost; however, excluding the cycle time for audit reconsiderations from the operational reports distorts the Program's overall performance results provided to IRS management and oversight bodies. TIGTA reported that audit reconsiderations represented 8 percent of the Program's overall audit closures in Fiscal Year 2007. The IRS' response cited that audit reconsiderations constitute about 10 percent of their overall Examination Program. Given Program management's use of the operational reports to monitor performance and to establish yearly work-plan goals, TIGTA maintains that using all aspects of historical performance data is needed to establish accurate and complete yearly goals.

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/200940099fr.pdf>.