



Treasury Inspector General for Tax Administration Office of Audit

ADDITIONAL PROCESS IMPROVEMENTS ARE NEEDED DUE TO CONTINUED GROWTH IN THE VOLUNTARY CORRECTION PROGRAM FOR RETIREMENT PLANS

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Highlights

Highlights of Report Number: 2010-10-012 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

The Voluntary Correction Program (VCP) permits retirement plan sponsors to pay a fee and receive the Internal Revenue Service's (IRS) approval for correction of retirement plans any time before an audit. While the IRS has taken actions that have significantly reduced the number of calendar days required to process VCP applications, further improvements will be needed due to increased customer demand, reduced staffing, and the significant number of applications not being closed within timeliness goals. Providing timely service is important because correcting errors in a timely and efficient manner protects the favorable treatment of employees' retirement benefits and reduces the uncertainty of any potential tax liabilities for both employees and retirement plan sponsors.

WHY TIGTA DID THE AUDIT

This audit was initiated at the request of the former Tax Exempt and Government Entities Division Commissioner and is part of TIGTA's Fiscal Year 2009 Annual Audit Plan coverage under the major management challenge of Tax Compliance Initiatives. The overall objective of this review was to assess the IRS' efforts to improve the efficiency of processing Employee Plans VCP cases to ensure timely processing and to increase participation through outreach efforts.

WHAT TIGTA FOUND

Employee Plans function completed a significant number of actions to promote the VCP with preparers and sponsors responsible for administering retirement plans. While a direct link could not be established, TIGTA also noted that increased outreach activities have corresponded with an increase in the number of VCP applications received. To meet the increased customer demand, VCP management made several changes that reduced

processing time nearly 50 percent. In addition, VCP management addressed a key Pension Protection Act of 2006 provision by continually updating and improving the system of correction programs already available and making the programs more accessible to small business employers.

However, about 22 percent of the applications were still not being closed within timeliness goals in Fiscal Year 2008, and there is no guarantee that future budgets and priorities will allow for increased staffing to work the growing number of applications. Taking these factors into account, additional processing improvements will need to be made to cut down on the time it takes to process certain applications and handle the increasing volume of applications. Based on a review of 220 VCP applications and interviews with VCP personnel, TIGTA identified 5 areas where additional processing improvements can be made that will further improve the Employee Plan function's ability to timely process VCP applications.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Employee Plans: a) reinforce the need for staff conducting the initial screening of VCP applications to determine whether case files have all needed information, b) expand the "streamlined" application process to include more common types of failures, c) expand the VCP Revenue Procedure to include a checklist that provides retirement plan sponsors with specific options they can use to identify the type of plan failure, d) analyze the staffing mix for VCP revenue agent groups to determine the most effective mix of positions and responsibilities, and e) survey retirement plan sponsors upon completion of the VCP process to ask how it could be improved.

In their response to the report, IRS officials agreed with the recommendations and have taken and/or plan to take appropriate corrective actions.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201010012fr.pdf>.

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