



## Treasury Inspector General for Tax Administration Office of Audit

### **ALTHOUGH THE LARGE AND MID-SIZE BUSINESS DIVISION'S CURRENCY INITIATIVE WAS CONSIDERED A SUCCESS, IMPROVEMENTS COULD BE MADE IN FUTURE INITIATIVES**

Issued on September 26, 2008

## Highlights

Highlights of Report Number: 2008-30-181 to the Internal Revenue Service Commissioner for the Large and Mid-Size Business Division.

### **IMPACT ON TAXPAYERS**

The Internal Revenue Service (IRS) considers reducing the time, costs, and burdens of large corporate examinations to be extremely important. In October 2003, the Commissioner, Large and Mid-Size Business (LMSB) Division, initiated the Fiscal Year 2004 Currency and Cycle Time Improvement Initiative (currency initiative) with a goal to "realize significant gains in cycle time, currency, return closures, rates, and audit coverage performance." Although the LMSB Division's examination performance statistics improved in the years following the currency initiative, the initiative also received adverse media coverage alleging that significant tax issues could have been overlooked in examinations that were closed prematurely, which could have reduced the amount of taxes assessed and collected from corporate taxpayers.

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

This audit was initiated to evaluate whether the design and implementation of the currency initiative allowed the LMSB Division to more efficiently close examinations while effectively addressing mandatory and high-risk material issues.

### **WHAT TIGTA FOUND**

Based on several performance measures, the LMSB Division has increased the efficiency of its examinations since the currency initiative. Both the average number of months required by an examination group to close an examination of a return and case cycle time for corporate examinations have declined. In addition, examination coverage has increased along with the amounts of assessments that examiners are recommending.

Although the currency initiative was considered a success, there are opportunities for improvement. Some

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LMSB Division personnel expressed resistance to the changes introduced by the initiative. Another concern was that significant tax issues might have been overlooked in examinations closed prematurely to meet initiative deadlines. TIGTA reviewed 30 judgmentally selected corporate examinations closed during the initiative. In 14 (47 percent) of the 30 cases, TIGTA found no evidence that examiners used the Case Analysis Worksheet that was designed for use during the currency initiative to reduce the risk of missing significant tax issues. Some of the 14 cases were in early or late stages of review, with issues not yet identified or nearing completion, but the guidance for the Case Analysis Worksheet did not provide an exception for such cases.

TIGTA further evaluated the 30 cases by comparing the issues identified for examination during planning to those ultimately examined and identified 3 cases in which 1 or more issues were dropped from the examination with little or no supporting documentation. Without access to the financial records for the 30 cases reviewed, TIGTA could not determine whether any of the corporations avoided paying additional taxes that might have been owed. However, the LMSB Division could have more closely followed best practices and possibly addressed the challenges it faced during the currency initiative.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the Commissioner, LMSB Division, ensure that a standardized framework for planning and carrying out initiatives of this magnitude is incorporated into the official LMSB Division policies and procedures and includes steps for fully assessing implementation barriers and detailed pilot testing.

In their response to the report, IRS officials agreed with the recommendation, stating that the LMSB Division plans to 1) consider use of a standardized framework with detailed steps for managers to follow, and 2) issue a guidance memorandum to LMSB Division directors responsible for review and approval of the design and implementation of major process improvement initiatives in the LMSB Division. Although the IRS agreed with our findings and recommendation, it did not fully commit to using a standardized framework with detailed steps for the design and implementation of future major process improvement initiatives. TIGTA continues to believe that without a standardized framework in place for future initiatives, the IRS remains at risk of experiencing challenges similar to those it faced with the Fiscal Year 2004 currency initiative.

### **READ THE FULL REPORT**

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

<http://www.treas.gov/tigta/auditreports/2008reports/200830181fr.pdf>.

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