



Treasury Inspector General for Tax Administration Office of Audit

THE COMPLIANCE INITIATIVE PROJECTS PROGRAM PERFORMED SOME EXAMINATIONS AFTER THE PROJECTS EXPIRED OR WERE TERMINATED

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Highlights

Highlights of Report Number: 2009-30-085 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Compliance Initiative Projects (CIP) Program identifies and examines tax returns from a group of taxpayers (e.g., a particular type of occupation, tax issue, or tax return) that may have a specific area of tax noncompliance. However, the CIP Program was not effectively managed or monitored to prevent new examinations from being started after the CIP authority expired or the project was terminated. TIGTA identified 134 unique taxpayer accounts that were subjected to examinations after the projects expired or were terminated which potentially resulted in violations of taxpayers' rights to privacy and security.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the Small Business/Self-Employed Division is meeting its goal of identifying areas of noncompliance and controlling returns for CIPs. This audit was conducted as part of TIGTA's Fiscal Year 2008 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

Our review showed that two Area Offices maintained adequate physical security over the CIP tax returns, and CIP authorizations were properly approved. However, the Internal Revenue Service did not properly monitor the projects to ensure that examinations were not conducted after the CIP expired or was terminated. In addition, the Internal Revenue Manual does not identify the responsibilities and reporting expectations of the Headquarters CIP Program Analyst, which led to insufficient communication and coordination between the Headquarters CIP Program Analyst and the local coordinators.

TIGTA identified 134 taxpayer accounts for 135 tax returns where the examination started after the project expired or was terminated.

The National CIP Database was not accurate and did not capture and report examinations started after the expiration or termination date. TIGTA identified four projects that were not updated on the Database for new expiration, termination, and/or extension dates. The Database did not accurately capture the current status of these projects, which involved 517 unique taxpayer accounts and 526 tax returns.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Examination Planning and Delivery, 1) update the CIP section of the Internal Revenue Manual to define the specific responsibilities and expectations of the Headquarters CIP Program Analyst and the CIP Program. The update should also describe the purpose of the National CIP Database and provide guidance on how it should be used to monitor the Program. The Director, Examination Planning and Delivery, should also 2) create a report that alerts management about projects with pending expiration and termination dates and a report that lists any examinations that were started after the project expiration or termination dates, and 3) ensure the National CIP Database is current and accurate and the contents are appropriate for effective monitoring of expiration and termination dates.

In their response to the report, Internal Revenue Service (IRS) officials agreed with all the recommendations. The IRS plans to update the Internal Revenue Manual to address the responsibilities of the Headquarters CIP Program Analyst and the National CIP Database, including annual reviews for accuracy. The IRS also plans to create a report that alerts management about projects with pending expiration and termination dates.

Although IRS management agreed with the recommendations, they did not agree that taxpayers' rights to privacy and security were violated. The IRS believes that once an examination has started, they are obligated to complete it. However, at the time of our review, the Internal Revenue Manual prohibited Examination function employees from beginning new examinations after the project had expired when taxpayer contact had not yet been made. Because the IRS had not contacted the taxpayer before the expiration date in all 134 accounts identified, TIGTA did not adjust the outcome measures in this report.

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/200930085fr.pdf>

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