



*Consistent and Effective Management  
Involvement Is Needed in Resolving  
Disagreements Over Audit Results*

**August 7, 2009**

**Reference Number: 2009-30-103**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 7, 2009

**MEMORANDUM FOR** COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED  
DIVISION

*Michael R. Phillips*

**FROM:**

Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Consistent and Effective Management  
Involvement Is Needed in Resolving Disagreements Over Audit  
Results (Audit # 200830032)

This report presents the results of our review to evaluate whether reviews conducted by group managers are effective tools in managing the outcome of field audits in the Small Business/Self-Employed (SB/SE) Division. The review was part of our Fiscal Year 2008 Annual Audit Plan under the major management challenge of Human Capital.

*Impact on the Taxpayer*

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.

*Synopsis*

Group manager involvement in casework is considered a key to enhancing service and compliance because it makes taxpayer interactions less time consuming and less expensive especially when disputes surface in audits. The policy of the IRS is to resolve disagreements over audit results at the lowest practical level, and the initial step in the resolution process is for the group manager to contact the taxpayer or his or her representative to either resolve the disagreement or understand the basis for the disagreement. Besides promoting positive customer relations, such involvement is important from a revenue perspective. Our evaluation of IRS



## *Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

Fiscal Year 2004 audit results found agreed audit assessments are far more likely to be collected than those assessed by default and produced, on average, \$642 more in collections.

To determine if group managers were involved in the resolution of audits, we reviewed 38 field audits<sup>1</sup> in which recommended additional taxes were assessed by default after examiners could not obtain agreement to the proposed taxes owed. In 24 (63 percent) of the 38 cases, we found that the level of managerial involvement was insufficient because the group manager did not contact the taxpayer or representative, as required by the Internal Revenue Manual, in an attempt to reach agreement with the taxpayer on the results of the audit.

The high number of cases in our sample without consistent and effective managerial involvement to obtain agreement is a concern because we found the guidance for group managers to be detailed and adequate. The group managers who participated in a survey we conducted considered 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. While administrative demands and other factors cited by group managers likely contributed to the problem, 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. In several cases, we found that managers were sufficiently involved in other areas of the audit, such as reviewing and approving penalties, but not in attempting to contact taxpayers or their representatives to obtain agreement.

Both within and outside the Federal Government, a considerable body of research exists that indicates employee involvement in solving problems related to their jobs can be an effective way to identify fundamental causes of problems and effective solutions. We believe that the IRS in-house assessments underway with the Workforce of Tomorrow Task Force and the SB/SE Division Management Advisory Council may be a good way to ensure that the fundamental causes of the problems discussed in this report are identified and resolved.

### *Recommendations*

We recommended that the Director, Examination, SB/SE 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. We also recommended that the Director, Examination, SB/SE Division, share the observations made in this report with the SB/SE 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.

---

<sup>1</sup> Audits of individuals, partnerships, and corporations that occur either at the taxpayer's place of business or through interviews at an IRS office.



*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

*Response*

IRS management agreed with our recommendations. The Director, Examination Policy, SB/SE Division, will 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 importance of managerial involvement will be also be reemphasized during a conference call with the Area Technical Analysts. In addition, this report will be shared with the SB/SE Division Management Advisory Council and the Human Capital Office, which assumed responsibility for the action items originating from the Workforce of Tomorrow Task Force. Management's complete response to the draft report is included as Appendix VII.

Copies of this report are being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.



---

*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

## *Table of Contents*

<b>Background</b> .....	Page 1
<b>Results of Review</b> .....	Page 3
Involvement by First-Line Managers Is Critical to the Successful Delivery of Vital Federal Government Programs and Services.....	Page 3
Group Managers Need to Be More Involved in Securing Agreement to Audit Results.....	Page 5
<u>Recommendations 1 and 2:</u> .....	Page 8
<b>Appendices</b>	
Appendix I – Detailed Objective, Scope, and Methodology .....	Page 9
Appendix II – Major Contributors to This Report .....	Page 11
Appendix III – Report Distribution List .....	Page 12
Appendix IV – Survey of Group Managers .....	Page 13
Appendix V – National Quality Review System - Standards and Attributes for Field Audit.....	Page 21
Appendix VI – National Quality Review System - Managerial Involvement Attribute .....	Page 23
Appendix VII – Management’s Response to the Draft Report.....	Page 25



*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

*Abbreviations*

EQRS	Embedded Quality Review System
IRS	Internal Revenue Service
NQRS	National Quality Review System
SB/SE	Small Business/Self-Employed



*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

## *Background*

Tax return audits range from reviewing tax returns and resolving questionable items by corresponding with taxpayers through the mail to conducting a detailed, field audit of a taxpayer's financial records at his or her place of business. In contrast to the less expensive and more automated correspondence audit process, field audits are more labor intensive and conducted by examiners who are trained to deal with and focus on more complex tax returns and issues.

Typically, a field audit begins with the examiner explaining to the taxpayer or his or her representative the audit process and requesting information to support items on the tax return, which the examiner has identified for audit. If the items can be resolved by the information provided, the audit is closed without any tax changes. If not, the taxpayer or the representative is requested to provide more information or be informed of a recommended tax change. At this point, the taxpayer can agree with the examiner, provide the examiner with clarifying information, participate in a discussion with the examiner's first-line manager (called a group manager), or appeal the decision administratively to the Internal Revenue Service (IRS) Office of Appeals. If an agreement cannot be reached at the group level and the decision is not appealed administratively, the IRS will issue a Notice of Deficiency<sup>1</sup> and the taxpayer may petition the Tax Court to contest the proposed assessment. If a taxpayer does not petition the Tax Court, the IRS will assess the recommended tax changes by default.

Group managers are responsible for ensuring audits meet quality standards and are conducted timely. This is a significant role from both a taxpayer perspective and a revenue perspective because the IRS audits more than a million tax returns each year and identifies billions of dollars in additional tax revenue. To assist IRS group managers in meeting their responsibilities, the Internal Revenue Manual recommends that they use a variety of processes, such as reviews of ongoing audits, closed audits, overall inventory, and technical time reports, as well as on-the-job visits and ongoing observations and discussions with examiners.

To facilitate and document group managers' reviews, the IRS introduced the Embedded Quality Review System (EQRS) in March 2007. The EQRS is an online system designed, in part, to align individual performance with organizational goals by linking quality attributes to examiners' performance plans. The system can generate individual reports that group managers use to provide examiners guidance, direction, and performance feedback. The IRS views the EQRS as one way of reducing administrative burden because the system standardizes the format

---

<sup>1</sup> A legal document sent to a taxpayer which explains the proposed changes and the amount of the proposed tax increase.



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

for the various types of reviews and takes the guesswork out of linking the attributes with examiners' critical job elements.

Mid-level managers also use the EQRS to monitor the level and adequacy of group manager involvement in audits. They may also evaluate ongoing work in open audits during operational reviews. Operational reviews are required to be performed at least annually to ensure that work is being done in conformance with IRS policies and procedures.

After an audit closes, National Quality Review System (NQRS) reviewers may evaluate the audit case file to determine whether the examiner complied with quality attributes and assess the level of managerial involvement. Besides serving as a quality control, the purpose of the NQRS is to collect information about the audit process, communicate areas of concern to top management, identify potential training needs, and improve work processes. See Appendix V for more details on the NQRS standards and associated attributes.

This review was performed in the Small Business/Self-Employed (SB/SE) Division Examination function in New Carrollton, Maryland, and in Campus<sup>2</sup> Compliance Services at the Memphis Campus in Memphis, Tennessee, during the period May 2008 through March 2009. Except for auditing IRS databases to validate the accuracy and reliability of the information, we conducted this performance audit in accordance with generally accepted government audit standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

---

<sup>2</sup> The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

## *Results of Review*

### ***Involvement by First-Line Managers Is Critical to the Successful Delivery of Vital Federal Government Programs and Services***

First-line managers have an extremely important role in the Federal Government because they are responsible for the day-to-day implementation of the policies, procedures, and practices that deliver vital programs and services to the public. Ensuring the successful delivery of such programs on a day-to-day basis is no easy task and is becoming even more challenging.

According to a report issued by the Office of Personnel Management, first-line managers are “supervising greater numbers of employees, using broader delegations of authority, helping more employees balance work and family demands, [and] responding to increasing demands for customer service...”<sup>3</sup> Moreover, first-line managers throughout the Federal Government are also dealing with the demands and burdens of supervising an increasingly inexperienced workforce due to the large numbers of experienced personnel retiring.

The *IRS Organization Blueprint 2000*<sup>4</sup> for modernization helped lay the foundation to focus efforts on reducing the administrative demands on group managers so they could have more time for involvement in audits and other compliance casework. Increasing managerial involvement in casework is considered a key to enhancing service and compliance because it makes taxpayer interactions less time consuming and less expensive especially when disputes surface in audits.

Since Fiscal Year 2000, the IRS continues to make progress towards better positioning its group managers to take a greater role in the audit process. A significant step was establishing four operating divisions to serve and ensure the compliance of specific taxpayer segments. By grouping taxpayers together, the IRS envisions that group managers and the examiners they supervise will have less difficulty focusing on issues and problems unique to the taxpayers they serve. Other steps taken to reduce administrative burden include the reinvigorated Management Advisory Councils, numerous pro-forma audit checklists, an online human resource system, and computer-based training packages. In addition, top IRS executives have formed, and are leading, a cross functional Workforce of Tomorrow Task Force that is charged with dealing with a host of human capital issues that range from streamlining hiring practices to enhancing the role of managers by addressing the competing demands on the group managers’ time and attention.

The continuing emphasis on the importance of managerial involvement in the audit process is likely a significant contributing factor to a favorable trend NQRS reviewers are finding in their

---

<sup>3</sup> *Report of a Special Study – Supervisors in the Federal Government: A Wake-Up Call (January 2001).*

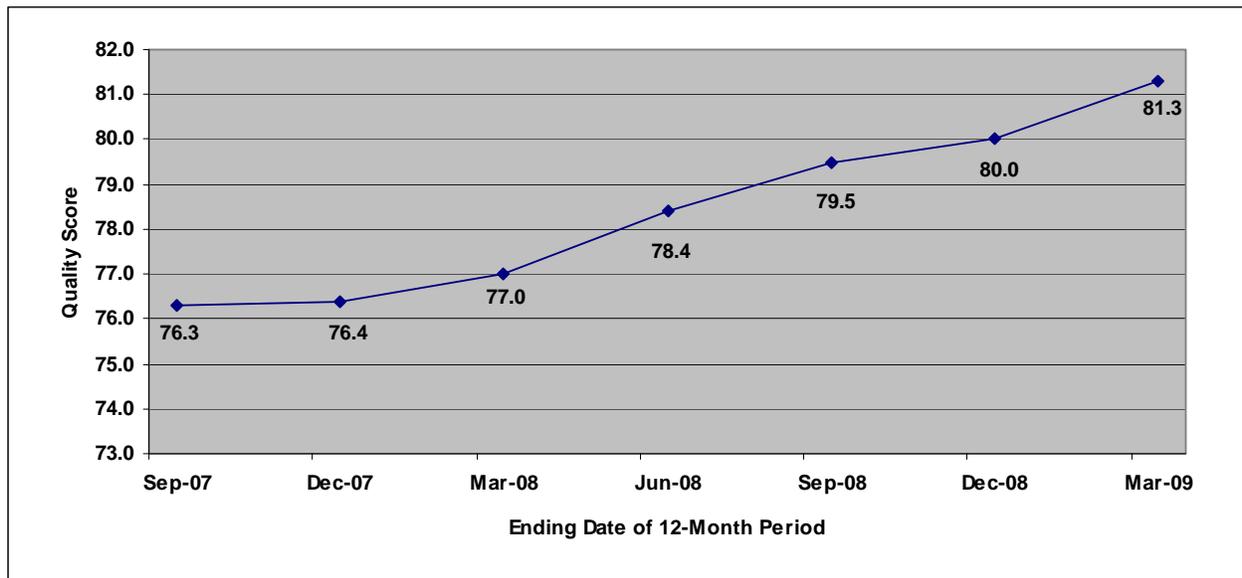
<sup>4</sup> IRS Document 11052 (Rev 4-2000).



*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

evaluations of closed audits in the SB/SE Division. As Figure 1 illustrates, the percentage of audits where the level of group manager involvement was found to be appropriate by NQRS reviewers increased from 76.3 percent for the 12 months ending September 2007 to 81.3 percent for the 12 months ending March 31, 2009.

**Figure 1: Percentage of Audits in Which the Level of Group Manager Involvement Was Appropriate – September 2007 through March 2009**



*Source: Treasury Inspector General for Tax Administration analysis of IRS NQRS results for SB/SE Division Field Audits for Fiscal Years 2007, 2008, and 2009.*

Since managers are not expected, nor required, to be involved in every audit, it is important to recognize what the NQRS percentage in Figure 1 does and does not represent. In general, the percentage measures the portion of audits selected for quality review in which the level of managerial involvement was deemed appropriate compared with the total number of sampled cases that were reviewed. The percentage does not measure the level of group manager involvement by specific types of case closings, such as those in which taxpayers agreed or did not agree with the examiners' findings. More details about NQRS evaluations of managerial involvement in the audit process are included in Appendix VI.

While the NQRS shows that the overall level of managerial involvement in SB/SE Division audits is trending favorably, our evaluation of 38 closed field audits suggests that group managers need to be more involved in attempting to obtain agreement in audits. Group managers who participated in our survey<sup>5</sup> cited various factors that could have contributed to the absence of consistent and effective managerial involvement found in the cases reviewed. The

<sup>5</sup> See Appendix IV for the detailed results of our survey.



## *Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

IRS may find our survey results and other observations made in this report useful in its continuing efforts to better position group managers to take a greater role in the audit process.

### **Group Managers Need to Be More Involved in Securing Agreement to Audit Results**

The policy of the IRS is to resolve disagreement in audits at the lowest practical level, and 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 the case being closed agreed or partially agreed, which can reduce additional costs to both the IRS and taxpayers by avoiding a protracted dispute resolution process.

When a taxpayer agrees with the results of an audit, there is an additional benefit of enhancing tax revenues because agreed audit assessments are far more likely to be collected than those assessed by default. To illustrate, we evaluated statistically valid samples of Fiscal Year 2004 agreed audits and audits where the taxes were assessed by default after examiners could not obtain agreement. As summarized in Figure 2, our evaluation found that as of February 2009, most (94 percent) of the additional taxes assessed in agreed audits had been collected while only about 27 percent was collected from the taxes assessed by default. We also found that, on average, the agreed audits produced \$642 more in collections than the audits where the taxes were assessed by default.

**Figure 2: Comparison of Audit Assessments Collected as of February 2009**

<i>Type of Assessment</i>	<i>Returns Audited</i>	<i>Total Assessments</i>	<i>Amount Collected</i>	<i>Percent Collected</i>	<i>Average Amount Collected</i>
<i>Agreed</i>	59	\$585,850	\$550,666	94%	\$9,333
<i>Default</i>	382	\$12,418,135	\$3,320,008	27%	\$8,691

*Source: Treasury Inspector General for Tax Administration analysis of random samples of agreed and defaulted audit cases.*

To determine if group managers were involved in cases in which the examiner could not obtain agreement, we reviewed 38 field audits that were closed between October 2007 and March 2008 after the taxpayer failed to respond to requests from the IRS for agreement. We determined that in 24 (63 percent) of the 38 audits, the level of managerial involvement was insufficient because the group manager did not contact the taxpayer or representative, as required by the Internal Revenue Manual, in an attempt to reach agreement with the taxpayer on the results of the audit.

Overall, the high number of cases in our sample without appropriate and effective managerial involvement is a concern because we found the guidance for group managers to be detailed and adequate. Given the adequacy of the guidance and feedback from the NQRS, we believe there is no easy solution to enhancing the consistency and effectiveness of managerial involvement in



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

audits even though the group managers who participated in our survey provided several explanations for the problem.

Our survey results showed that, although the group managers considered their involvement in audits critical to the success of the results, most indicated that the amount of administrative demands on their time hamper their ability to be more involved in the audits. In addition, 35 percent of the group managers stated that they were dissatisfied with the EQRS, and 85 percent of the group managers stated that the system needs improvement. Among others, group managers cited the need to:

- Make the EQRS portable by implementing off-line use.
- Integrate the EQRS with Windows-based applications, like Microsoft Word and Excel applications.
- Allow comments for positive feedback.
- Improve the reports that are generated by the EQRS.
- Add more space for narrative summaries and comments.

While we did not conduct an indepth review of the EQRS, exploring the improvements cited by the group managers and minimizing the potential managerial burden associated with documenting both case files and the EQRS would be worthwhile. According to an IRS official, NQRS reviewers do not have access to EQRS data because they contain feedback on examiner performance and sharing such information would violate the agreement between IRS management and the National Treasury Employee Union. NQRS reviewers instead rely solely on the paper documentation contained in case files to make their evaluations about the adequacy of managerial involvement in areas considered critical to the examination process.

Because the areas are considered critical, the Internal Revenue Manual recommends that group managers address many of the same areas in the direction and guidance they provide to examiners during onsite visits and case reviews. Since onsite visits and case reviews are required to be documented in the EQRS where they can be accessed and evaluated by mid-level managers, group managers may have little choice in some instances except to document the guidance and directions provided to examiners in both case files and the EQRS. Figure 3 outlines some of the areas where opportunities may exist to reduce the same or similar documentation required in both case files and the EQRS.



*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

**Figure 3: Some of the Critical Areas in the Audit Process Where Opportunities May Exist to Reduce Documenting Both Case Files and the EQRS**

<b><i>Planning</i></b>
Meaningful review and concurrence of audit plans for examiners below the journey level
<b><i>Investigative/Audit Techniques</i></b>
Meaningful review and approval of penalties before they are recommended for assessment
Meaningful review and concurrence for not asserting the substantial understatement penalty
Development of an action plan to identify indicators when fraud is suspected
<b><i>Customer Relations and Professionalism</i></b>
Development of an action plan to address taxpayer procrastination
Development of an action plan to address audits where there is no activity for extended periods
Development of an action plan to address audits opened for an extended period of time
Meaningful review of tax law interpretation and application for issues in which the taxpayer and the examiner disagreed
Meaningful actions taken to resolve issues in which the taxpayer and the examiner disagreed

*Source: Treasury Inspector General for Tax Administration review of the Internal Revenue Manual, quality attributes, and SB/SE Division Examination function documents.*

Although administrative demands and concerns with the EQRS are likely contributing to the absence of consistent and effective managerial involvement in contacting taxpayers and obtaining agreement to audit results, 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. In several cases, we found managers sufficiently involved in other areas of the audit, such as reviewing and approving penalties, but not in attempting to contact taxpayers to secure agreement to audit results when agreement could not be obtained by the examiner.

Both within and outside the Federal Government, a considerable body of research exists that indicates employee involvement in solving problems related to their jobs can be an effective way to identify fundamental causes of problems and effective solutions. Accordingly, the in-house assessments underway with the IRS Workforce of Tomorrow Task Force and the SB/SE Division Management Advisory Council may be a good way to ensure that the fundamental causes of the problems discussed in this report are identified and resolved.

Specifically, the Enhancing the Role of Managers subgroup of the IRS Workforce of Tomorrow Task Force determined that managers want to spend more time on people development, but many are overwhelmed by administrative burden. An early approved recommendation of the subgroup is the streamlining of mandatory briefings, which group managers cited as an administrative burden in our survey and in a survey conducted by the IRS Workforce of Tomorrow Task Force. The SB/SE Division Management Advisory Council also considers mandatory employee briefings a priority topic. Other top-priority topics include the EQRS, the leadership succession review process, and the lack of manager autonomy and empowerment. It should be noted that of the 127 group managers we surveyed, only 31 percent were aware of any



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

initiatives to minimize the barriers that prevent them from being sufficiently involved in cases assigned to examiners in their groups.

### ***Recommendations***

The Director, Examination, SB/SE Division, should:

**Recommendation 1:** Reemphasize in future communications with group managers the importance and need to be actively involved in securing agreement to the results of audits when agreement cannot be obtained by examiners.

**Management's Response:** IRS management agreed with our recommendation and will 1) 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, and 2) reemphasize the importance of managerial involvement during a conference call with the Area Technical Analysts.

**Recommendation 2:** Share the observations made in this report with the SB/SE Division Management Advisory Council and the Workforce of Tomorrow Task Force for use in their continuing efforts to enhance the role of managers and address administrative burden.

**Management's Response:** IRS management agreed with our recommendation and will share this report with the SB/SE Division Management Advisory Council and extend an invitation to the Treasury Inspector General for Tax Administration to discuss our audit findings at a future Management Advisory Council meeting. Management will also share this report with the Human Capital Office, which assumed responsibility for the action items originating from the Workforce of Tomorrow Task Force.



---

*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether reviews conducted by group managers are effective tools in managing the outcomes of field audits in the SB/SE Division. To meet our objective, we relied upon IRS internal management reports and databases. We did not establish the reliability of these data because extensive data validation tests were outside the scope of this audit and would have required a significant amount of time. To accomplish our objective, we:

- I. Reviewed IRS policies and procedures to determine the level of involvement expected of group managers responsible for SB/SE Division audit cases.
- II. Evaluated results from the SB/SE Division NQRS to determine whether managerial involvement in cases was identified as a problem and whether required corrective actions were taken.
- III. From a June 26, 2008, inventory listing, we selected and reviewed 38 cases from the population of 217 defaulted<sup>1</sup> audit cases closed between October 2007 and March 2008. A judgmental sample was used because a statistical sample to project results would have required extensive resources and time.
  - A. Evaluated the sufficiency of managerial involvement in the audits and documented in the case files.
  - B. Reviewed EQRS documentation for cases in our sample to determine if reviews were completed by the managers but not documented in the audit case file.
  - C. Surveyed the managers responsible for the 38 cases in our sample.
- IV. Surveyed 127<sup>2</sup> SB/SE Division group managers who were responsible for managing examiners to determine the factors that hinder their involvement in audits (see Appendix IV for our survey questions and results).
  - A. Judgmentally selected the 30 group managers who were responsible for the closed cases in step III.

---

<sup>1</sup> In these audits, taxpayers did not agree with the results of the audits. If an agreement cannot be reached at the group level and the decision is not appealed administratively, the taxpayer may petition the Tax Court to contest the proposed assessment. If a taxpayer does not petition the Tax Court, the IRS will assess the recommended tax changes by default.

<sup>2</sup> The 127 includes 30 managers responsible for the cases reviewed in Step III.



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

- B. From the population of 432 group managers, randomly selected 115 group managers (97 group managers completed the survey).
- V. Evaluated the status and potential impact of initiatives to reduce administrative burden including work being conducted by the Workforce of Tomorrow Task Force and the SB/SE Division Management Advisory Council.
- VI. From a population of 32,496 agreed cases, selected a statistically valid sample (95 percent confidence level,  $\pm 5$  percent precision level) of 59 cases closed in Fiscal Year 2004 from the Audit Information Management System<sup>3</sup> and determined the total dollars collected as of February 2009.
- VII. From a population of 5,352 defaulted cases, selected a statistically valid sample (95 percent confidence level,  $\pm 5$  percent precision level) of 382 cases closed in Fiscal Year 2004 from the Audit Information Management System and determined the total dollars collected as of February 2009.

---

<sup>3</sup> A computer system used to control returns, input assessments and adjustments to the Master File, and provide management reports. The Master File is the IRS database that stores various types of taxpayer account information.



*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

**Appendix II**

*Major Contributors to This Report*

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Frank Dunleavy, Director

Lisa Stoy, Audit Manager

Joan Floyd, Lead Auditor

Craig Pelletier, Senior Auditor

Ali Vaezazizi, Auditor



*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Small Business/Self-Employed Division SE:S  
Director, Examination, Small Business/Self-Employed Division SE:S:E  
Director, Examination Policy, Small Business/Self-Employed Division SE:S:E:EP  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S



---

*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

## **Appendix IV**

### *Survey of Group Managers*

The following survey questions were included in both the telephone and online surveys that we conducted. Notification about the telephone survey was emailed to 30 group managers who supervised examiners from October 2007 through March 2008. Notification about the online survey was emailed to 115 group managers who supervised examiners as of November 2008. The email notifications for both types of surveys were similar. Telephone surveys were completed by December 3, 2008, and online surveys were completed by February 23, 2009. A total of 127 group managers participated in the survey.

#### ***Email Notification***

The Treasury Inspector General for Tax Administration, Office of Audit, is conducting an evaluation of managerial involvement in SB/SE Division field audits. As part of the evaluation, the Treasury Inspector General for Tax Administration is conducting a survey of a sample of group managers who supervise examiners. You have been selected to participate in the survey.

Treasury Inspector General for Tax Administration and SB/SE Division Examination function executives appreciate your participation in the survey because it will help to identify areas in which the amount of paperwork and other administrative burden may hamper your ability to take full advantage of opportunities to be involved in the day-to-day, case-related activities of your examiners. In addition, it will help identify the challenges the SB/SE Division faces in dealing with the high number of newly hired examiners. According to the Deputy Commissioner, SB/SE Division, approximately 65 percent of SB/SE Division examiners have less than 4 years of experience.

The Treasury Inspector General for Tax Administration estimates that the survey will take about 20 minutes to complete. The survey is confidential. Your responses will be combined with those of other respondents and will be reported only in summary form. The Treasury Inspector General for Tax Administration will not identify the specific respondents who participated in the survey either in their report or to other IRS officials.

Thank you!



---

*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

## **Survey Questions**

### **Questions about Managerial Involvement and the Types of Reviews Conducted by Group Managers**

**1. To what extent do you consider managerial involvement in the audit process critical for ensuring quality audits are conducted on a timely basis?**

- |           |                        |       |
|-----------|------------------------|-------|
| <u>60</u> | To a very great extent | (47%) |
| <u>61</u> | To a great extent      | (48%) |
| <u>6</u>  | To a moderate extent   | ( 5%) |
| <u>0</u>  | To some extent         | ( 0%) |
| <u>0</u>  | To little or no extent | ( 0%) |
| <u>0</u>  | Do not know            | ( 0%) |

**2. Taking everything into consideration, how would you rate the amount of time you have available to be actively involved in the audits conducted by the examiners in your group?**

- |           |                                     |       |
|-----------|-------------------------------------|-------|
| <u>3</u>  | More than enough time               | ( 2%) |
| <u>35</u> | Just about the right amount of time | (28%) |
| <u>89</u> | Too little time                     | (70%) |

**3. What types of reviews do you conduct to ensure your involvement in the audit process? (Please indicate all that apply.)**

- |            |                                   |       |
|------------|-----------------------------------|-------|
| <u>120</u> | Workload reviews                  | (94%) |
| <u>115</u> | In-process case reviews           | (91%) |
| <u>120</u> | On-the-job visits                 | (94%) |
| <u>116</u> | Reviews of closed cases           | (91%) |
| <u>38</u>  | Workpaper reviews                 | (30%) |
| <u>120</u> | Reviews of Technical Time Reports | (94%) |
| <u>41</u>  | Other (Please describe)           | (32%) |

***Other types of reviews:***

- Periodic (weekly or monthly) reviews of cases meeting the following criteria:



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

- Open for a long period of time.
- Long periods of inactivity.
- Statute concerns.
- Concurrence meetings.
- Decision point discussions.
- Review of examiners' planning calendars.
- Informal discussions with examiners about specific case-related issues.

**4. Which of the following do you find to be the most effective for ensuring quality audits are completed in a timely manner? (Please check one.)<sup>1</sup>**

<u>30</u> Conducting workload reviews	(24%)
<u>17</u> Conducting in-process case reviews	(13%)
<u>18</u> Conducting concurrence meetings	(14%)
<u>23</u> Conducting on-the-job visits	(18%)
<u>4</u> Attending case closing conferences	( 3%)
<u>1</u> Conducting managerial conferences on Appeals Cases	( 1%)
<u>1</u> Reviewing closed cases	( 1%)
<u>31</u> Reviewing Technical Time Reports	(24%)
<u>11</u> Other (Please describe)	( 9%)

***Other methods for ensuring quality audits are completed timely:***

Monthly discussions with examiners to discuss the status and direction of their audits.

**5. Does your Area's policy regarding the amount of interim evaluative feedback differ depending on the grade level of the agent?**

<u>55</u> Yes	(43%)
<u>72</u> No	(57%)

**6. Please describe your Area's policy regarding interim evaluative feedback as it pertains to:**

- a. Workload reviews: Most Areas required one workload review per examiner per year.

---

<sup>1</sup> Some respondents selected more than one choice.



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

- b. In-process case reviews: Varied.<sup>2</sup>
- c. On-the-job visits: Varied (see footnote 2).
- d. Reviewing closed cases: Varied (see footnote 2).
- e. Reviewing Technical Time Reports: Varied.<sup>3</sup>

**7. When discussing a case with an agent or conducting a case review, do you document your activity within the audit file?**

- 95   Yes (Go to question 8.) (75%)
- 32   No (Go to question 9.) (25%)

**8. How do you document your involvement or case review within the audit file?<sup>4</sup>**

- 82   a. Form 9984 (65%)
- 56   b. Manager's Concurrence Meeting Lead Sheet (44%)
- 23   c. Somewhere else in the case file (18%)
- 13   d. Other (Please describe): (10%)

***Other ways of documenting involvement:***

- Group managers rely on examiners to document involvement in the case files.
- Handwritten notes on a separate activity record that is incorporated into the case file when the case is closed.

**Questions Pertaining to the Embedded Quality Review System**

**9. To what extent are you familiar with the EQRS?**

- 76   Very familiar (60%)
- 42   More familiar than unfamiliar (33%)
- 8   Neither familiar nor unfamiliar ( 6%)

---

<sup>2</sup> The Areas varied in the requirements for in-process case reviews, on-the-job visits, closed case reviews, and reviews of Technical Time Reports. For example, most Areas required that, in addition to a workload review, the group manager conduct a certain number (two or three) of reviews for each examiner. The group managers could decide the type of reviews they wanted to conduct from the following: in-process case reviews, on-the-job visits, closed case reviews, or reviews of Technical Time Reports.

<sup>3</sup> Some of the Areas required periodic (monthly, bimonthly, or quarterly) reviews of Technical Time Reports. One Area required one review of Technical Time Reports per examiner per year.

<sup>4</sup> Some respondents selected more than one choice.



---

*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

- 1 More unfamiliar than familiar           ( 1%)  
  0 Very unfamiliar                           ( 0%)  
  0 No basis to judge                         ( 0%)

**10. Overall, how satisfied or dissatisfied are you with the EQRS?**

- 9 Very satisfied                             ( 7%)  
 46 More satisfied than dissatisfied       (36%)  
 27 Neither satisfied nor dissatisfied     (22%)  
 33 More dissatisfied than satisfied       (26%)  
 12 Very dissatisfied                       ( 9%)  
  0 No basis to judge                       ( 0%)

**11. Overall, how satisfied or dissatisfied are you with the training you received for using the EQRS?**

- 25 Very satisfied                           (20%)  
 45 More satisfied than dissatisfied       (35%)  
 32 Neither satisfied nor dissatisfied     (25%)  
 11 More dissatisfied than satisfied       ( 9%)  
  9 Very dissatisfied                       ( 7%)  
  5 No basis to judge                       ( 4%)

**12. To what extent, if at all, could the EQRS be improved?**

- 17 To a very great extent                 (13%)  
 37 To a great extent                       (29%)  
 39 To a moderate extent                  (31%)  
 15 To some extent                         (12%)  
  6 To little or no extent                 ( 5%)  
 13 Do not know                            (10%)

***Suggestions for improving the EQRS:***

- Make the EQRS less burdensome and more user friendly.
- Make the EQRS portable by implementing offline use.



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

- Incorporate a spellchecker and the capability to copy and paste within the EQRS.
- Fully integrate the EQRS with Windows-based applications, like Word and Excel.
- Allow comments for attributes that are rated “not applicable.”
- Allow comments for positive feedback.
- Improve navigation.
- Make the menus and selections for ad hoc report functions easier to use.
- Improve navigation and printing.
- Improve the reports that are generated by the EQRS.
- Add attributes for some of the critical job elements, which have one or only a few attributes.
- Reduce attributes; there are too many and they are repetitive.
- More space is needed for narrative summaries and comments.
- Build the job aid into the EQRS so that definitions and examples are readily available.

**Questions Related to Administrative or Managerial Burden**

**13. To what extent does the amount of administrative demands on your time hamper your ability to be more involved in the audits assigned to your group?**

- |           |                        |       |
|-----------|------------------------|-------|
| <u>32</u> | To a very great extent | (25%) |
| <u>57</u> | To a great extent      | (45%) |
| <u>27</u> | To a moderate extent   | (21%) |
| <u>10</u> | To some extent         | ( 8%) |
| <u>0</u>  | To little or no extent | ( 0%) |
| <u>1</u>  | Do not know            | ( 1%) |

**14. Which of the following administrative demands hamper your ability to be more involved in the audits your group is conducting? (Please select the top two.)<sup>5</sup>**

- |           |  |       |
|-----------|--|-------|
| <u>56</u> | Responding to requests to prepare ad hoc reports | (44%) |
|-----------|--|-------|

---

<sup>5</sup> Some respondents selected more than two choices.



*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

<u>12</u> Approving leave and other timekeeping responsibilities	( 9%)
<u>73</u> Responding to emails and/or phone calls from superiors	(57%)
<u>55</u> Completing evaluations and other personnel transactions	(43%)
<u>22</u> Serving as Commissioner's Representative for my post-of-duty	(17%)
<u>2</u> Do not know	( 2%)
<u>48</u> Other (Please describe.)	(38%)

***Other demands that hamper a group manager's ability to be more involved in audit cases:***

- Addressing performance or conduct issues.
- Mandatory briefings.
- Emails from individuals other than superiors.
- Requests from superiors or others with quick deadlines.
- Monthly briefings for the Territory Manager.
- Labor relation and union issues.

**15. Are you aware of any initiatives to minimize the barriers that prevent you from being sufficiently involved in cases assigned to examiners in your group?**

<u>40</u> Yes (Please describe.) (Go to question 16.)	(31%)
<u>87</u> No (Go to question 17.)	(69%)

**16. To what extent do you believe that these initiatives will minimize the barriers that prevent you from being sufficiently involved in cases assigned to examiners in your group?**

<u>0</u> To a very great extent	( 0%)
<u>2</u> To a great extent	( 5%)
<u>9</u> To a moderate extent	(22%)
<u>9</u> To some extent	(22%)
<u>17</u> To little or no extent	(43%)
<u>3</u> Do not know	( 8%)

**17. Do you have any suggestions to reduce administrative or managerial burden on SB/SE Division audit group managers?**



---

*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

78 Yes (Please describe.) (61%)  
49 No (39%)

***Suggestions for reducing administrative or managerial burden:***

- Improve the process for hiring clerical support.
- Increase the grade level for the group secretary.
- Reduce the amount of written feedback that group managers are required to complete each year for each examiner.
- Allow the group managers discretion in the minimum amount of required written feedback.
- Let managers manage their groups.
- Reduce the number of reports required by Territory Managers and Area Directors.
- Keep the number of examiners per group at 10 or less.
- Eliminate the requirement for group manager concurrence meetings.
- Consider adding an assistant group manager or administrative assistant who would help the group manager by conducting mandatory briefings, monitoring travel authorizations, and other administrative duties.
- Reduce emails.
- Reduce short turnarounds on emails requiring action or response.

**18. Is there anything else that you would like to add?**

26 Yes (Please describe.) (20%)  
101 No (80%)

***Additional comments:***

- Examiners are not being trained properly. Improvements are needed in the training process.
- Create a resource web site for examiners – a “one-stop shopping” place which examiners can access to quickly find answers to their questions.
- There are not enough hours in the day to do a group manager’s job in a quality manner.
- Assign cases to examiners based on potential, not on a first-in, first-out basis.



*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

## Appendix V

### *National Quality Review System - Standards and Attributes for Field Audit*

NQRS reviewers use the quality attributes listed below in evaluating statistically valid samples of closed field audit cases. Once evaluations are completed, the results are input into the NQRS to communicate areas of concern to top management, identify potential training needs, and improve work processes.

<i>Quality Standard</i>	<i>Attribute</i>	<i>Brief Description</i>
<b><i>Planning</i></b>	<ul style="list-style-type: none"> <li>• Pre-Plan Activity</li> <li>• Information Document Request</li> <li>• Large, Unusual, and Questionable (other than income)</li> <li>• Prior/Subsequent Year and Related Returns</li> <li>• Verify Full Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Is the employee's pre-plan activity appropriate?</li> <li>• Did the employee prepare the appropriate Information Document Requests?</li> <li>• Did the employee properly consider large, unusual, and questionable items (other than income) on the primary return?</li> <li>• Did the employee include prior/subsequent and related returns when warranted?</li> <li>• Did the employee verify full compliance through appropriate research or other means such as inspection, inquiry, etc. as appropriate?</li> </ul>
<b><i>Income Determination</i></b>	<ul style="list-style-type: none"> <li>• Exam Income Determination</li> </ul>	<ul style="list-style-type: none"> <li>• Did the employee use appropriate techniques to determine income?</li> </ul>
<b><i>Investigative/Audit Techniques</i></b>	<ul style="list-style-type: none"> <li>• Audit/Compliance Interview</li> <li>• Interpreted/Applied Tax Law Correctly</li> <li>• Fraud Determination</li> <li>• Civil Penalty Determination</li> </ul>	<ul style="list-style-type: none"> <li>• Did the employee conduct adequate interviews?</li> <li>• Did the employee interpret and apply the tax law correctly?</li> <li>• Did the employee properly pursue and develop indicators of fraud?</li> <li>• Did the employee make correct determinations and computations for civil penalties?</li> </ul>



*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

<b><i>Quality Standard</i></b>	<b><i>Attribute Name</i></b>	<b><i>Brief Description</i></b>
<b><i>Timeliness</i></b>	<ul style="list-style-type: none"> <li>• Time Spent on Audit/Compliance Review</li> <li>• Efficient Resolution and Internal Revenue Timeframes Met</li> </ul>	<ul style="list-style-type: none"> <li>• Is the time spent on the audit commensurate with the complexity of the issues?</li> <li>• Were Internal Revenue Manual timeframes met and the case actions taken done in the most efficient manner that did not result in any unnecessary delay to resolve the case?</li> </ul>
<b><i>Customer Relations and Professionalism</i></b>	<ul style="list-style-type: none"> <li>• Clear/Professional Written Communication</li> <li>• Taxpayer/Power of Attorney Kept Apprised</li> <li>• Taxpayer Rights</li> <li>• Confidentiality</li> <li>• Solicit Payment</li> <li>• Managerial Involvement</li> </ul>	<ul style="list-style-type: none"> <li>• Were all correspondence and documentation businesslike and professional in tone, appearance, and content?</li> <li>• Did the employee keep the Taxpayer/Power of Attorney informed throughout the audit process?</li> <li>• Did the employee advise the Taxpayer/Power of Attorney of all rights?</li> <li>• Did the employee protect the confidentiality of the taxpayer and/or return information?</li> <li>• Did the employee solicit payment and/or consider an installment agreement?</li> <li>• Was the level of managerial involvement appropriate? (See Appendix VI for details.)</li> </ul>
<b><i>Documentation and Reports</i></b>	<ul style="list-style-type: none"> <li>• Employee Case/History Documentation</li> <li>• Workpapers Support Conclusion</li> <li>• Report Writing</li> <li>• Tax Computation</li> </ul>	<ul style="list-style-type: none"> <li>• Did the employee complete the required case history/case documentation per Internal Revenue Manual guidelines including accurate, clear, and concise preparation of internal documents?</li> <li>• Did the employee appropriately prepare workpapers to support the conclusion of the case?</li> <li>• Did the employee follow applicable report writing procedures?</li> <li>• Did the employee correctly determine and compute the proposed or actual assessment(s) and/or abatement(s) of tax as required?</li> </ul>



---

*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

## **Appendix VI**

### *National Quality Review System – Managerial Involvement Attribute*

#### **Definition**

The following attribute is used to determine if the level of managerial involvement is appropriate for a particular audit case. Managerial involvement can be appropriate at any time and is mandatory in certain instances.

#### **Points Considered**

NQRS reviewers consider the following points when evaluating managerial involvement during their reviews.

- Group managers should become involved as necessary (or when asked to do so) to avoid any unnecessary delays or problems.
- Group managers are required to make contact with the taxpayer or representative in all cases in which the taxpayer and the examiner could not reach agreement. Contacts can be in person or via telephone and should be documented in the case file. A manager can delegate this responsibility to a senior agent or examiner as appropriate.
- Examiners should not wait for the audit to become a problem before they ask for managerial assistance.
- Group managers are required to meet with examiners below a certain grade on audit cases unless the case is closed within 14 business days after the initial appointment with the taxpayer or representative. The purpose of the meeting, also referred to as a “concurrence meeting,” is for the group manager to review and concur with the examiner’s audit plan.
- A discussion with the manager is required when income is understated by more than \$10,000.



*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

---

**Reasons for Managerial Involvement**

The following reasons are areas where group manager involvement in an audit case is warranted. The group manager is required to document involvement in the case file.

- Procrastination by the taxpayer/representative.
- Examiner procrastination.
- The taxpayer and the examiner could not reach agreement.
- High time was charged to the case or the case is taking a long time to complete.
- Fast track mediation is offered to the taxpayer.
- A concurrence meeting is required.
- Income is understated by more than \$10,000.
- Other (for example, determining whether or not to bypass an uncooperative representative and contact the taxpayer directly).



*Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results*

**Appendix VII**

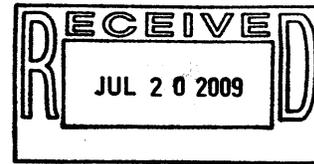
*Management's Response to the Draft Report*



COMMISSIONER  
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D. C. 20224

July 17, 2009



MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Christopher Wagner  
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results (Audit 200830032)

We have reviewed your draft report, "Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results." Group manager involvement in casework is critical for enhancing service and compliance. We agree with your observation that agreed audit assessments are more likely to be collected than those assessed by default. Additionally, group managers can help facilitate discussions to determine the basis for disagreement.

We appreciate your acknowledgement that the guidance provided to group managers is detailed and adequate. We agree that we should reemphasize the importance and the need for group managers to be involved in securing agreement to audit results when examiners are unable to do so.

Working with various IRS groups, including the Management Advisory Council (MAC) and the Workforce of Tomorrow Task Force, we are identifying ways to reduce managers' administrative burden to enable a higher level of involvement in casework. We agree to share your report with the MAC and our Human Capital Office, which assumed responsibility for the action items originating from the Workforce of Tomorrow Task Force. Additionally, we will be extending an invitation to the Treasury Inspector General for Tax Administration (TIGTA) to discuss their audit findings at a future MAC meeting.

A detailed response outlining our corrective actions is attached. If you have questions, please call me at (202) 622-0600 or Monica Baker, Director, Examination at (202) 283-7660.

Attachment



---

*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

**Attachment**

**RECOMMENDATION 1:**

Reemphasize in future communications with group managers the importance and need to be actively involved in securing agreement to the results of audits when agreement cannot be obtained by examiners.

**CORRECTIVE ACTION:**

We concur with this recommendation. We will:

1. Publish an article in the Technical Digest detailing the importance of group manager involvement in securing agreement to audit results when an agreement could not be obtained by the examiner.
2. Reemphasize the importance of managerial involvement during a conference call with the Area Technical Analysts.

**IMPLEMENTATION DATE:**

1. January 15, 2010
2. October 15, 2009

**RESPONSIBLE OFFICIAL:**

Director, Examination Policy (SB/SE Division)

**CORRECTIVE ACTION(S) MONITORING PLAN:**

The Director, Examination Policy, SB/SE will advise the Director, Examination, SB/SE of any delays in implementing this corrective action.

**RECOMMENDATION 2:**

Share the observations made in this report with the SB/SE Division Management Advisory Council (MAC) and the Workforce of Tomorrow Task Force for use in their continuing efforts to enhance the role of managers and address administrative burden.

**CORRECTIVE ACTION:**

We will share this report with the MAC and will extend an invitation to TIGTA to discuss their audit findings at a future MAC meeting. We will also share this report with the Human Capital Office, which assumed responsibility for the action items originating from the Workforce of Tomorrow Task Force.

**IMPLEMENTATION DATE:**

October 15, 2009

**RESPONSIBLE OFFICIAL:**

Director, Examination Policy (SB/SE Division)



*Consistent and Effective Management Involvement Is Needed in  
Resolving Disagreements Over Audit Results*

---

2

**CORRECTIVE ACTION MONITORING PLAN:**

The Director, Examination Policy, SB/SE will advise the Director, Examination, SB/SE of any delays in implementing this corrective action.