



Treasury Inspector General for Tax Administration Office of Audit

A CONCERTED EFFORT SHOULD BE TAKEN TO IMPROVE FEDERAL GOVERNMENT AGENCY TAX COMPLIANCE

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Highlights

Highlights of Report Number: 2012-30-094 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Federal agencies are exempt from paying Federal income taxes; however, they are not exempt from meeting their employment tax deposits and related reporting requirements. As of December 31, 2011, 70 Federal agencies with 126 delinquent tax accounts owed approximately \$14 million in unpaid taxes. In addition, 18 Federal agencies had not filed or were delinquent in filing 39 employment tax returns. Federal agencies should be held to the same filing and paying standards as all American taxpayers.

WHY TIGTA DID THE AUDIT

In August 2007, TIGTA issued a report citing the need to expand the Federal Agency Delinquency Program's efforts to identify and address the causes for Federal agency delinquencies, strengthen controls over case processing, and develop strategies to resolve aged cases. Although the overall objective of the current review was to determine the effectiveness of the IRS's process to collect delinquent taxes and secure delinquent tax returns from Federal agencies, TIGTA also followed up on the effectiveness of the corrective actions taken in response to the prior TIGTA report.

WHAT TIGTA FOUND

The corrective actions the IRS took in response to the prior TIGTA report did not fully address previously identified internal control weaknesses. Specifically, a process to resolve aged Federal agency delinquent tax accounts has not been fully developed.

TIGTA analyzed 132 aged Federal agency delinquent tax accounts from the December 2008 Federal Agency Delinquency Listing. As of December 31, 2011, TIGTA identified 40 aged Federal agency delinquent tax accounts totaling approximately \$2.6 million that were still open after three years. In addition, Federal Agency Delinquency Program employees suspended collection

actions for 34 of the 40 aged delinquent tax accounts totaling approximately \$2.4 million. Because the IRS has suspended pursuing these aged delinquent tax accounts, the possibility that the delinquent Federal agencies will now voluntarily pay their outstanding tax liabilities is very low.

Management information reports do not provide sufficient details about the causes of Federal agency delinquencies in order to be effectively used to enhance outreach and educational efforts. A lack of control over processing Federal agency cases permitted the use of enforcement actions that violated IRS policies. In addition, limited procedures concerning the timeliness of case processing resulted in delayed case resolution.

WHAT TIGTA RECOMMENDED

To improve the administration of the Federal Agency Delinquency Program, TIGTA made several recommendations to the Commissioner, Small Business/Self-Employed Division, which include strengthening the procedures for resolving delinquent tax accounts and assisting Federal agencies with understanding and meeting their tax responsibilities.

IRS management agreed with the recommendations and the outcome measures in this report. In addition, IRS management responded that in October 2011 they had completed the corrective action for one of the recommendations. Prior to issuing the draft report, TIGTA requested the IRS provide confirmation that the updates to the management information reports were completed and that the information was useful. The IRS provided and TIGTA reviewed the updates, which addressed TIGTA's main concerns. However, the IRS did not confirm that it was making use of the updated report information.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201230094fr.pdf>.