



## Treasury Inspector General for Tax Administration Office of Audit

### **ACTIONS ARE NEEDED TO ENSURE AUDIT RESULTS POST TIMELY AND ACCURATELY TO TAXPAYER ACCOUNTS**

Issued on September 7, 2012

## Highlights

Highlights of Report Number: 2012-30-097 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

### **IMPACT ON TAXPAYERS**

TIGTA identified several control issues that adversely affected the ability of the Small Business/Self-Employed Division to timely and accurately post audit results to taxpayer accounts and protect the statutory period for assessing tax deficiencies. These issues increased the risk of 1) allowing noncompliant taxpayers to avoid paying taxes they otherwise owe, 2) creating unnecessary burden on taxpayers by posting inaccurate tax assessments, and 3) compromising the integrity of the tax system by issuing erroneous tax refunds.

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

This audit was initiated to determine whether the Centralized Case Processing function controls at the Memphis, Tennessee, Campus are ensuring that Small Business/Self-Employed Division Field audits are timely and accurately processed, and the statutory period for assessing taxes is protected. The review is part of our Fiscal Year 2012 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

### **WHAT TIGTA FOUND**

Despite layers of management controls, steps need to be taken to ensure that returns with pending statute expiration dates are protected and audit results are timely and accurately posted to accounts. TIGTA analyzed Fiscal Year 2011 audit closures and found 229 audits with deficiencies totaling \$4.9 million that had soon to expire assessment statute expiration dates that were not controlled in accordance with established procedures. TIGTA also found that procedures were not followed to expedite the processing of 891 of 1,377 large dollar audits so actions could be initiated to collect the \$100,000 or more that the taxpayers agreed they owed. This, in turn, cost the Federal Government approximately \$324,000 of lost interest revenue. In addition, TIGTA identified three audits with deficiencies totaling

approximately \$134,000 that were incorrectly posted to taxpayer accounts.

Further, 80 employees had access to sensitive command code combinations that gave them capabilities such as inputting adjustments to taxpayer accounts and changing key taxpayer account information, including addresses. TIGTA found that the IRS does not have adequate controls over the employees' access to and use of such combinations. As a result, there will continue to be a risk of potentially fraudulent transactions occurring and going undetected.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the Director, Campus Reporting Compliance, Small Business/Self-Employed Division, establish procedures that ensure all audits entering the Centralized Case Processing operation with short statute expiration dates and large dollar deficiencies are timely and accurately assigned and processed in accordance with applicable procedures. Procedures also need to be established that ensure accurate information is posted to taxpayer accounts and employees' use of sensitive command code combinations is monitored.

In their response to the report, IRS management agreed with five recommendations and partially agreed with one recommendation. IRS management stated that they plan to take or have already taken corrective actions. Specifically, IRS management stated that they plan to implement monitoring procedures to ensure that all audits with short statute expiration dates and large dollar deficiencies are timely and accurately assigned and processed in accordance with applicable procedures. In addition, the IRS stated that training was implemented to ensure appropriate monitoring and use of command codes.

### **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/201230097fr.pdf>.