



*The International Campus
Compliance Unit Is Improving
Individual Tax Compliance*

September 19, 2013

Reference Number: 2013-30-113

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.

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HIGHLIGHTS

THE INTERNATIONAL CAMPUS COMPLIANCE UNIT IS IMPROVING INDIVIDUAL TAX COMPLIANCE

Highlights

**Final Report issued on
September 19, 2013**

Highlights of Reference Number: 2013-30-113 to the Internal Revenue Service Commissioner for the Large Business and International Division.

IMPACT ON TAXPAYERS

As globalization grows, so do concerns about the International Tax Gap—that is, taxes owed but not collected on time from a U.S. person or foreign person whose cross-border transactions are subject to U.S. taxation. To address these concerns, the IRS developed a strategic plan to increase its international efforts, including the creation of the International Campus Compliance Unit (CCU) to enhance its efforts to expand audit coverage of tax returns with international aspects and to increase compliance among international individual taxpayers.

WHY TIGTA DID THE AUDIT

Before creating the CCU, the IRS did not have resources dedicated to specifically address the needs of the international individual taxpayer. The overall objective of this review was to determine whether the benefits envisioned by establishing the CCU to improve international individual tax compliance are being achieved.

WHAT TIGTA FOUND

The IRS successfully planned the CCU and followed general Government guidelines and steps for implementing a new business process during the planning. The IRS is still developing inventory selection criteria for the CCU. However, for Fiscal Years 2011 through 2013 (through March 13, 2013), the CCU conducted almost 18,000 audits and assessed approximately \$36 million. Further, the no-change rate decreased from Fiscal

Year 2012 to Fiscal Year 2013, while agreed assessments increased.

Despite its accomplishments, the CCU does not have specific performance measures for its operations. The current performance measures incorporate all tax examiner groups in the Individual International Compliance Program. However, tax examiner groups outside of the CCU work different issues and cases. Ideally, an agency should develop and implement measures for all its major processes to track costs, quality, and timeliness.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS enhance the performance measures for the CCU to more specifically reflect the work performed by CCU examiners.

The IRS agreed with this recommendation and plans to evaluate the current performance measures and CCU inventory results to determine how to enhance the performance measures that are specific to work performed by CCU examiners. The IRS plans to use these performance measures to establish effective performance goals and measure the CCU's success in achieving them.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 19, 2013

MEMORANDUM FOR COMMISSIONER, LARGE BUSINESS AND INTERNATIONAL
DIVISION

FROM: Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The International Campus Compliance Unit Is
Improving Individual Tax Compliance (Audit # 201330020)

This report presents the results of our review to determine whether the benefits envisioned by establishing the International Campus Compliance Unit to improve international individual tax compliance are being achieved. This review is included in our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Globalization.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Nancy Nakamura, Assistant Inspector General for Audit (Compliance and Enforcement Operations).



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*The International Campus Compliance Unit
Is Improving Individual Tax Compliance*

Abbreviations

CCU	Campus Compliance Unit
IRS	Internal Revenue Service
LB&I	Large Business and International
LQMS	Large Business and International Quality Measurement System



*The International Campus Compliance Unit
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Background

As globalization increases, so do concerns about the International Tax Gap¹—that is, taxes owed but not collected on time from a U.S. person or foreign person whose cross-border transactions are subject to U.S. taxation. While the Internal Revenue Service (IRS) has not developed an accurate and reliable estimate of the International Tax Gap, non-IRS sources estimate it to be between \$40 billion and \$123 billion annually.

***The International Tax Gap
has been estimated to
range between \$40 billion
and \$123 billion annually.***

To address the International Tax Gap, the IRS developed an international tax strategic plan with two major goals:

- 1) Enforce the law to ensure that all taxpayers meet their obligation to pay taxes.
- 2) Improve service to make voluntary compliance less burdensome.

The IRS continues to realign and expand its international efforts under its Large Business and International (LB&I) Division. The IRS expects that these efforts will improve international tax compliance by allowing it to focus on high-risk international issues and cases with greater consistency and efficiency.

Creation of the International Campus Compliance Unit

In October 2010, the LB&I Division established the International Campus Compliance Unit (CCU) in Austin, Texas. The CCU was created to expand audit coverage of tax returns with international aspects and to increase compliance among international individual taxpayers. The CCU addresses and resolves less complex issues through correspondence examinations and serves as the first point of contact for initiatives involving soft notices or contacts with taxpayers regarding their taxes.

The primary goal of the CCU is to increase coverage of international tax return filings or international tax issues reported or underreported on Form 1040, *U.S. Individual Income Tax Return*, or Form 1040NR, *U.S. Nonresident Alien Tax Return*. The CCU also works closely with the Wage and Investment Division's Submission Processing function to expediently address emerging abusive tax schemes involving international tax returns or tax issues and supports international initiatives relative to individual taxpayers to facilitate early resolution of cases without field involvement.

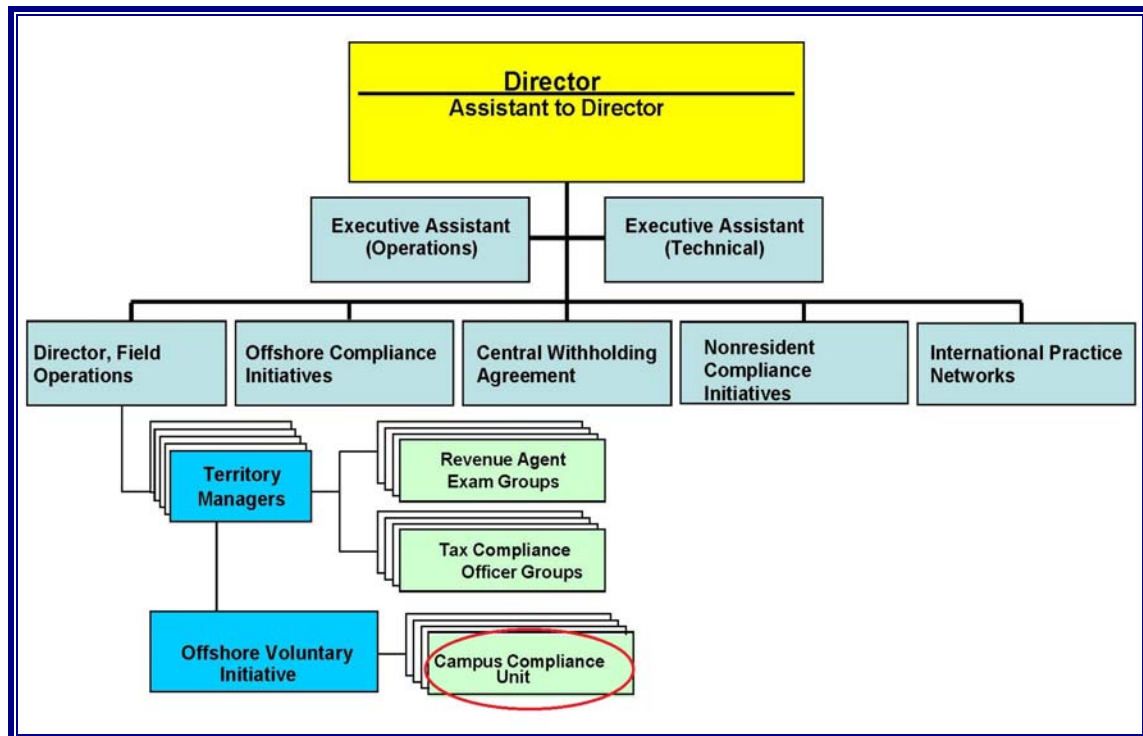
¹ See Appendix IV for a glossary of terms.



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Figure 1 shows the CCU's location in the International Individual Compliance Program's organizational structure.

Figure 1: LB&I Division's International Individual Compliance Program's Organizational Structure



Source: The IRS intranet, May 15, 2013.

The CCU is engaged in a number of diverse projects, including:

- Creating tax returns for certain taxpayers who failed to file Forms 1040PR (the Spanish version of Form 1040 for residents of Puerto Rico).
- Examining filed Forms 1040NR claiming certain treaty benefits.
- Processing applications for Central Withholding Agreements by nonresident alien athletes and entertainers.

The CCU will assist the IRS's efforts to increase audit coverage of individual tax returns with international aspects and to improve compliance among international individual taxpayers. The IRS anticipates that the scope of its operations and staff will expand over time to address other international tax compliance issues.

This review was performed at the CCU in Austin, Texas. It also includes an analysis of data provided by the International Individual Compliance Program, Planning and Special Programs,



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during the period September 2012 through June 2013. We conducted this performance audit in accordance with generally accepted government auditing 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.



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Results of Review

The International Campus Compliance Unit Was Successfully Implemented

Before the creation of the CCU, the IRS did not have resources dedicated to specifically address the international individual taxpayer. This created noncompliance conditions, which were especially significant in the U.S. territories and possessions. The IRS created the CCU to align resources to enhance tax compliance and customer service for individual taxpayers with less complex international tax issues. Since its creation in October 2010, the CCU has conducted almost 18,000 audits with approximately \$36 million in assessments.

The CCU provides the IRS with the additional resources needed to focus on individual international work.

The IRS's vision for the CCU is that it will identify and quickly respond to less complex industry and international tax issues resulting in an overall improvement in tax compliance and customer service. The approach used to implement this vision included the following six-step process.

1. Identify and prioritize initial workload types from the LB&I Division.
2. Determine the optimal organizational structure and location.
3. Identify the costs to establish and operate the CCU.
4. Develop a long-term workload identification and planning strategy that continually assesses and prioritizes potential work types across the LB&I Division.
5. Develop an implementation approach and timeline.
6. Implement the unit in phases beginning in Fiscal Year 2010.

The IRS took all the appropriate steps to create the CCU

When developing and implementing new business processes, or for improving existing ones, it is important to establish detailed steps for carrying out the various phases of the initiative. The Government Accountability Office's *Business Process Reengineering Assessment Guide*² contains nine major assessment issues considered by experts to be stepping stones to successful

² Government Accountability Office (formerly known as the General Accounting Office), GAO/AIMD-10.1.15 (version 3), *Business Process Reengineering Assessment Guide* (April 1997).



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business process reengineering. The issues in the guide provide a general framework for assessing a reengineering project from initial strategic planning and goal setting to post-implementation assessments. Figure 2 shows the nine major assessment issues and how IRS management addressed these issues in their creation of the CCU.

**Figure 2: Nine Major Assessments Issues
for Successful Business Process Reengineering**

Assessment	IRS's Actions
Did the IRS reassess its mission and strategic goals?	The IRS had an international strategy in place to improve voluntary compliance with the international tax provisions and to reduce the Tax Gap attributable to international transactions. Additionally, the LB&I Division identified several international tax issues that were not being addressed under current IRS processes. In its proposal for the CCU, the LB&I Division identified current resource issues and new work that could be performed with the creation of a compliance function in a submission processing site.
Did the IRS identify performance problems and set improvement goals?	Some international issues could not be supported under current IRS processes. In its planning, the IRS anticipated improvements and identified risks in establishing the CCU. For example, the LB&I Division had never established a campus compliance operation, and the IRS had concerns over future funding, sustainability of work, and employee skills. Each risk was addressed and mitigating actions were planned. Improvement goals could not be set at this time because many of the work types that had been identified were new or emerging compliance risks and were not currently being worked.
Should the IRS have engaged in reengineering?	The IRS appropriately determined that there was a need for the CCU due to a lack of coverage of individual international issues.
Was the reengineering project appropriately managed?	IRS managers experienced in the establishment of operations managed the implementation and established specific goals throughout the implementation process.
Did the project team analyze the target process and develop feasible alternatives?	The implementation process was carefully planned, but no alternatives were developed.
Did the project team complete a sound business case for implementing the new process?	There were many anticipated benefits in the business case. Some of these benefits include: 1) improving international individual compliance in the LB&I Division through additional correspondence examinations and soft notices addressing less complex issues; 2) increasing the efficiency and productivity of all correspondence examinations leading to increased coverage; and 3) increasing customer satisfaction by more quickly and accurately responding to taxpayer questions and issues.



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Assessment	IRS's Actions
Did the IRS follow a comprehensive implementation plan?	There was a detailed and comprehensive implementation plan.
Did IRS executives address change management issues?	Management implemented the new CCU and successfully made the transition to working new international tax issues.
Is the new process achieving the desired results?	The IRS is currently achieving the goals established for the CCU and is expanding audit coverage of tax returns with international aspects and increasing compliance among international individual taxpayers.

Source: The Treasury Inspector General for Tax Administration's evaluation of the nine major assessments based on the Government Accountability Office's Business Process Reengineering Assessment Guide.

The CCU was established and staffed

In deciding where to locate the CCU, the IRS used initial criteria of whether there was:

- 1) A Correspondence Examination function currently in the location.
- 2) Sufficient physical space.
- 3) Sufficient staff available to hire.
- 4) A presence of existing international expertise.

The Austin Submission Processing Site was chosen because it processes all international individual tax returns, so the international expertise needed was already in place.

To estimate the number of employees required to staff the CCU, the IRS needed to determine the unit's workload, *i.e.*, the volume of international tax returns to be audited and the time needed to audit them. However, many of the work types that had been identified were new or emerging compliance risks and were not currently being worked. Therefore, volumes and processing times were unknown.

In addition, the volume of some work types is directly tied to external variables and a submission processing site's ability to process fluctuating capacity is dictated by those variables rather than available resources. Based on all of these factors, the IRS determined that the initial staffing for the CCU was to be 30 tax examiners. As of Fiscal Year 2012, the number of tax examiners has slightly increased to 31.



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The CCU has audited almost 18,000 tax returns since its creation

In Fiscal Year 2011, the CCU primarily worked substitutes for returns related to Form 1040PR. Under the Substitute for Return Program, the IRS prepares tax returns for taxpayers who have not filed their required tax returns based on income and other information provided to the IRS by third parties, such as employers and banks. These tax returns are generally not complex and only take about an hour to create and assess. The CCU worked three years of tax returns for each taxpayer and these returns accounted for approximately 75 percent of the CCU's inventory during that fiscal year.

In Fiscal Year 2012, the CCU started working more complex tax returns related to Information Returns Processing. Information Returns Processing involves comparing what the taxpayers reported on their tax returns to the information the IRS was provided from third parties. These tax returns took an average of 3.5 hours to work; therefore, CCU examiners could not work as many tax returns as they did in Fiscal Year 2011. However, working these types of tax returns resulted in higher tax dollar assessments per tax return and thus overall higher dollars assessed even though not as many tax returns were worked as in Fiscal Year 2011.

As shown in Figure 3, for Fiscal Years 2011 through 2013 (through March 13, 2013) the CCU conducted almost 18,000 audits and assessed approximately \$36 million. Further, the no-change rate decreased from Fiscal Year 2012 to 2013, while agreed assessments increased.

Figure 3: The CCU's Accomplishments

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013*	Totals
Total Tax Returns Closed	9,614	5,177	3,003	17,794
Total Dollars Assessed (in millions)	\$10.4	\$15.7	\$9.8	\$35.9
Total Tax Returns With Assessments	9,164	4,036	2,638	15,838
Percentage of Tax Returns With Assessments	95.3%	78.0%	87.8%	89.0%
Total Agreed Assessments	3,857	2,294	1,619	7,770
Percentage of Agreed Assessments	40.1%	44.3%	53.9%	43.7%
Amount of Agreed Assessments (in millions)	\$6.3	\$7.6	\$4.6	\$18.5
Total Tax Returns Closed With No Change	450	1,141	365	1,956
Percentage of No-Change Closures	4.7%	22.0%	12.2%	11.0%

Source: IRS provided Examination Returns Control System reports. *As of March 30, 2013.



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The IRS is developing inventory selection criteria for the CCU

Planning and Special Projects³ function management stated that workload identification for the CCU is a significant challenge. Unlike other areas in the IRS where computer programs identify the inventory, identifying the workload for the CCU involves manually analyzing data. There is a large amount of IRS data to review as well as data from foreign treaty partners and other Government agencies such as the Department of State.

Additionally, the Planning and Special Projects function must ensure that the tax returns selected for audit are appropriate for correspondence audits and match the skills of the staff. In contrast to the more detailed and lengthy face-to-face audits in the field, the correspondence audit process is less intrusive, more automated, and includes less complex tax issues.

When the CCU receives inventory from the Planning and Special Projects function, the work is assigned to one of the CCU groups. Each group's team leader reviews the tax returns and assigns them to the individual tax examiners based on their training and experience. Feedback on inventory selection is provided to the Planning and Special Projects function to help ensure that adjustments to the inventory selection process can be made if needed.

The number of cases selected for the CCU that could not be worked is less than 1 percent of the 5,177 examinations that were closed in Fiscal Year 2012.

Currently, the Planning and Special Projects function is working closely with the CCU to identify additional data sources to ensure that the workload continues to be productive. This process is ongoing and changing annually as international tax issues change. For example, better case selection has led to a decrease in no-change cases. In addition, only about 15 cases a quarter are referred to other IRS functions because CCU employees cannot work them due to their complexity. This accounts for less than 1 percent of the 5,177 examinations closed in Fiscal Year 2012.

Performance Measures Still Need to Be Established

Although the IRS established a multilayered quality review process to ensure that the CCU inventory is correctly and consistently worked, it has not established the performance measures needed to measure the CCU's success in achieving its goals. Now that the CCU has been operating for a number of years, sufficient data would be available at the end of three years to establish meaningful performance measures to determine if the CCU is achieving its goals.

³ The Planning and Special Projects function within the International Individual Compliance Program is responsible for selecting the majority of the case inventory for the International Individual Compliance Program, including the CCU.



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The LB&I Quality Measurement System (LQMS) provides an independent review of CCU casework

The LQMS provides an independent quality review of a statistically valid sample of CCU cases. The LQMS reviews each case for 17 different issues including audit planning, income determination, audit technique, timeliness, and professionalism. The results of the first LQMS reviews for the CCU showed overall quality scores in the 90 percent range.

In addition, CCU management, which includes the Territory manager and the unit manager, perform operational reviews of the cases being worked in the CCU's inventory. The CCU management team has been performing operational reviews on a consistent basis and the Territory manager performs monthly reviews of cases more than 60 days old that are still in the inventory. The feedback received from the LQMS and the CCU management reviews are extensive and are used to determine planning and training needs. The current results of all reviews have been positive.

The CCU's performance improved, even though there are no specific performance measures for the program

The CCU's performance results improved from Fiscal Year 2011 to Fiscal Year 2012. Even though the CCU reviewed 4,437 fewer tax returns in Fiscal Year 2012 than it did in Fiscal Year 2011, it assessed \$5.4 million more in taxes, for an average of approximately \$2,000 more per tax return.

Figure 4 shows the categories of tax returns worked by the CCU and the dollars assessed.⁴ The decision to change the category of the tax returns selected had a big impact on the dollars assessed between Fiscal Years 2011 and 2012.

Figure 4: Tax Return Categories Worked by the International Campus Compliance Unit in Fiscal Years 2011 and 2012

<i>Fiscal Year 2011</i>			<i>Fiscal Year 2012</i>		
<i>Category</i>	<i>Returns</i>	<i>Assessments</i>	<i>Category</i>	<i>Returns</i>	<i>Assessments</i>
Form 1040-PR (Substitute for Return)	7,182	\$5.1 million	Information Returns Processing	3,101	\$9.5 million
Information Returns Processing	2,220	\$4.7 million	Erroneous Refund Child Credits	571	\$996,918

⁴ The assessments over \$1 million are rounded, so the average dollar assessments for these categories will be slightly different due to rounding.



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<i>Fiscal Year 2011</i>			<i>Fiscal Year 2012</i>		
<i>Category</i>	<i>Returns</i>	<i>Assessments</i>	<i>Category</i>	<i>Returns</i>	<i>Assessments</i>
Exchange of Information	88	\$173,797	Exchange of Information	413	\$2.0 million
Erroneous Refund Credit Project	62	\$53,671	Form 1040-NR (Prerefund)	382	\$1.9 million
Form 1040-NR (Prerefund)	30	\$245,929	Form 1040-PR (Substitute for Return)	264	\$208,593
Excessive Schedule A, Itemized Deductions, Mortgage Interest	16	\$29,993	Form 1040-PR Self-Employment Tax	169	\$252,543
Tax Treaty Exclusions	15	\$80,846	Residents of Puerto Rico Form 1040 With Earned Income Tax Credit	104	\$210,010
Other	1	\$1,184	Gambler/Treaty Issues	87	\$312,004
			Tax Treaty Exclusions	68	\$403,112
			Other	18	\$21,022
TOTALS	9,614	\$10.4 million		5,177	\$15.8 million⁵

Source: Closed Case Monitoring reports provided by the LB&I Division.

In Fiscal Year 2011, the Substitute for Return category yielded over \$700 per tax return, whereas in Fiscal Year 2012 the Information Return Processing category yielded over \$3,050 per tax return. This switch resulted in fewer assessments in Fiscal Year 2012 with a bigger impact on tax compliance. Before the CCU was created, these types of returns were not worked in the volumes they are now.

Despite its accomplishments, the CCU does not have specific performance measures for its operations. The current performance measures incorporate all tax examiner groups in the International Individual Compliance Program. However, tax examiner groups outside of the CCU work different issues and cases. Ideally an agency should have measures for all of its major processes to track cost, quality, and timeliness.

⁵ The difference between the assessments in Figure 3 (\$15.7 million) and Figure 4 (\$15.8 million) is due to rounding.



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The inventory reports in the Examination Returns Control System can be queried by the group number to provide data on the inventory results of the CCU. Based on our review of this data, the CCU is accomplishing what it was created to do. However, without specific performance measures, the IRS cannot establish effective performance goals or measure the CCU's success in achieving them. Performance measures specific for the CCU can help the program achieve its goals and measure its success from year to year.

Recommendation

Recommendation 1: The Commissioner, LB&I Division, should enhance the performance measures for the CCU to more specifically reflect the work performed by CCU examiners.

Management's Response: The IRS agreed with this recommendation. The IRS will evaluate the current performance measures and CCU inventory results to determine how to enhance the performance measures specific to work performed by CCU examiners. These performance measures will then be used to establish effective performance goals and measure the CCU's success in achieving them.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the benefits envisioned by establishing the International CCU to improve international individual tax compliance are being achieved. To accomplish this objective, we:

- I. Determined whether the IRS properly planned for and implemented the CCU by determining the LB&I Division's roles, responsibilities, and resource commitments to the CCU.
 - A. Obtained detailed implementation documentation from the LB&I Division that established the new CCU. We reviewed documentation to determine how the organizational structure and staffing levels were decided.
 - B. Reviewed the LB&I Division's strategic/annual plans, directives, program letters, and policies to determine its roles and responsibilities for identifying and addressing resource commitments to the CCU.
 - C. Interviewed the Director, International Individual Compliance, to identify the mission and goals of the CCU and determine the organization structure and staffing requirements.
 - D. Interviewed both LB&I Division executive management and the CCU management team to determine whether they believe the program is properly staffed.
 - E. Performed a walkthrough of the CCU in Austin, Texas, and identified the controls and procedures in place to process or select tax returns.
- II. Determined the controls and procedures the IRS has in place to ensure quality selection and classification of international tax returns to be worked by the CCU.
 - A. Researched the Internal Revenue Manual¹ and examination guidance documents, such as the annual examination plan, National Office Examination Classification Guidelines, and area classification instructions to identify whether international tax returns are included in these guidelines.
 - B. Discussed with both LB&I Division Executive Management and the CCU management team the controls and procedures in place to ensure that classification is consistent.

¹ See Appendix IV for a glossary of terms.



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- C. Determined the quality of the classification process by reviewing Examination Returns Control System reports and analyzing the percentages of no-change and agreed assessments.
- III. Determined whether the CCU is meeting its mission and goals by evaluating the program's quality review process and performance results from its creation to the end of Fiscal Year 2012.
 - A. Reviewed the LQMS procedures to evaluate the effectiveness of the quality review process.
 - B. Interviewed LQMS personnel and reviewed available reports to identify the number of cases reviewed and the corresponding review results. In addition, we evaluated the feedback provided and how the quality review process is being used to enhance the CCU.
 - C. Identified available reports that captured the performance measure results of the CCU's case processing. We reviewed and evaluated the results of these reports from the creation of the CCU to the end of Fiscal Year 2012 to determine whether the CCU's performance improved or declined.
 - D. Discussed the results of the reports with both LB&I Division Executive Management and the CCU management team to determine whether they believed the Unit was meeting its goals and fulfilling its mission.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the LB&I Division's plan for creating the CCU, the CCU's mission and policies, the selection criteria for the CCU inventory, the quality review process, and the performance measures. We evaluated these controls by interviewing management, reviewing the planning documentation for the CCU, reviewing quality review results, and analyzing inventory reports to determine if the CCU was productive and fulfilling its mission.



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Appendix II

Major Contributors to This Report

Augusta R. Cook, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Bryce Kisler, Director

Tina Parmer, Audit Manager

John Chiappino, Lead Auditor

Marge Filippelli, Senior Auditor

Frank O'Connor, Auditor



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Appendix III

Report Distribution List

Acting Commissioner
Office of the Commissioner – Attn: Chief of Staff C
Office of the Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner (International), Large Business and International Division SE:LB:IN
Director, International Individual Compliance, Large Business and International Division
SE:LB:IN
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: Large Business and International Division SE:LB



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Appendix IV

Glossary of Terms

Term	Definition
Central Withholding Agreement	A contract between a nonresident alien athlete or entertainer, a designated withholding agent, and an authorized representative of the IRS for a specific tour or series of events, which provides for the correct amount of withholding based upon net income at graduated rates.
Examination Returns Control System	The Examination Returns Control System provides detailed management information on returns under examination. Management and clerical personnel in the Small Business/ Self-Employed and LB&I Divisions use the Examination Returns Control System to request tax returns and update examination status. The Examination Returns Control System provides the capability to assign returns to individual examiners and record their time charges. The Examination Returns Control System also tracks technical time spent on the cases and monitors the cases for proximity to statute expiration.
Exchange of Information Program	The Exchange of Information Program administers the exchange of information provisions of U.S. tax treaties and tax information exchange agreements. It helps IRS field personnel obtain foreign-based records and other information from foreign countries.
Fiscal Year	A 12-consecutive-month period ending on the last day of any month. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Foreign Person	A foreign person includes a nonresident alien individual, foreign corporation, foreign partnership, foreign trust, foreign estate, and any other person who is not a U.S. person.
Information Returns Processing	Information Returns Processing identifies taxpayers who have underreported their income by matching information documents received by third parties to the income reported on the individual's tax return.
Internal Revenue Manual	Contains the policies, procedures, instructions, guidelines, and delegations of authority that direct the operation and administration of the IRS. Topics include tax administration, personnel and office management, and others.



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Term	Definition
International Individual Taxpayer	A U.S. citizen or resident alien working, living, or doing business abroad or receiving investment income from abroad or a foreign individual working, living, or doing business in the United States or receiving investment income from the United States.
International Practice Networks	A strategic part of the International Individual Compliance Program involves the creation of International Practice Networks aligned with a framework used to organize all international issues. The International Practice Networks allow all international personnel, counsel, and other interested parties to come together to share and collaborate on strategic international issues.
No-Change Rate	The no-change rate is the percentage of cases where no tax assessment was made.
Nonresident Alien	An individual who is not a U.S. citizen or U.S. national who has not passed the green card test or the substantial presence test.
Nonresident Compliance Initiatives	The Nonresident Compliance Initiatives office is responsible for workload identification, case building and delivery for examiners in the International Individual Compliance Program, providing automation support to field groups, and compliance program monitoring and reporting.
Offshore Compliance Initiatives	The Offshore Compliance Initiatives office promotes voluntary compliance with U.S. tax and foreign information reporting laws through strategic enforcement actions directed at identifying U.S. taxpayers involved in abusive offshore tax schemes and the banks, other financial institutions, and third parties that provide, facilitate, or enable their offshore financial arrangements.
Submission Processing Sites	The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Substitute for Return	A tax return prepared by the IRS under the authority of Internal Revenue Code Section 6020(b) using information from third-party sources because the taxpayer did not file a tax return.
Tax Gap	The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.



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Appendix V

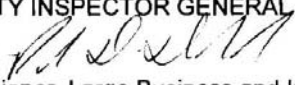
Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

August 20, 2013

MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Paul D. DeNard 
Acting Commissioner, Large Business and International Division

SUBJECT: Draft Report #201330020, *The International Campus Compliance Unit Is Improving Individual Tax Compliance*

We reviewed your draft report entitled, *The International Campus Compliance Unit Is Improving Individual Tax Compliance*. As your report indicates, the IRS continues to realign and expand its international efforts under the Large Business and International (LB&I) Division. We expect that these efforts will improve international tax compliance by focusing on high-risk international issues and examination cases in a consistent and efficient way. The primary goals of the relatively new International Campus Compliance Unit (CCU) are to:

1. Increase compliance among international individual taxpayers filing Forms 1040, *U.S. Individual Income Tax Return*, or Forms 1040NR, *U.S. Nonresident Alien Tax Return*; and
2. Identify and address emerging abusive tax schemes in a proactive way; and
3. Meet the needs of international individual taxpayers.

We are very pleased with the positive audit findings in your report.

- The IRS took all the appropriate steps to create the CCU, and as a result, it was successfully implemented.
- The CCU is productive. Performance improved since its establishment in October 2010. For Fiscal Years 2011 through 2013 (through March 13, 2013), the CCU conducted almost 18,000 audits and assessed approximately \$36 million. Furthermore, the no-change rate decreased from Fiscal Years 2012 to 2013, while agreed assessments increased.
- The LB&I Division Quality Measurement System (LQMS) provides an independent review of CCU casework.



*The International Campus Compliance Unit
Is Improving Individual Tax Compliance*

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We will continue to work to increase the inventory selection criteria for the CCU and agree to enhance performance measures for the unit to more specifically reflect the work performed by the examiners. Attached is a detailed response outlining the corrective action that the IRS will take to address your audit recommendation. If you have any questions, please contact David W. Horton, Director, International Individual Compliance, at (630) 493-5937.

Attachment



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Attachment

RECOMMENDATION 1:

The Commissioner, LB&I Division, should enhance the performance measures for the CCU to more specifically reflect the work performed by CCU examiners.

CORRECTIVE ACTIONS:

The Director, International Individual Compliance, will work with the CCU senior management team to evaluate the current IIC performance measures and CCU inventory results to determine how best to enhance the performance measures specific to work performed by CCU examiners. Additionally, we will work with Planning, Analysis, Inventory and Research (PAIR) as they have responsibility for performance measures for LB&I. These performance measures will then be used to establish effective performance goals and measure the CCU's success in achieving them.

IMPLEMENTATION DATE:

Estimated: August 31, 2014

RESPONSIBLE OFFICIAL(S):

Director, International Individual Compliance (SE:LB:IN:IIC)

CORRECTIVE ACTION(S) MONITORING PLAN:

The LB&I Internal Control Coordinator will track the implementation date for the corrective actions through the Joint Audit Management Enterprise System that tracks implementation of corrective actions addressing audit recommendations.