Fiscal Year 2020 Statutory Review of Restrictions on Directly Contacting Taxpayers

August 19, 2020

Reference Number: 2020-30-046
HIGHLIGHTS: Fiscal Year 2020 Statutory Review of Restrictions on Directly Contacting Taxpayers

Final Audit Report issued on August 19, 2020
Reference Number 2020-30-046

Why TIGTA Did This Audit

This audit was initiated because TIGTA is required to annually report on the IRS’s compliance with the direct contact provisions of the Internal Revenue Code (I.R.C.). For this year’s review, TIGTA analyzed the extent to which revenue officers in the Small Business/Self-Employed (SB/SE) Division’s Field Collection comply with the direct contact provisions of I.R.C. Section (§) 7521 and fair tax collection practices of I.R.C. § 6304(a)(2) during interactions with taxpayers or their representatives. The Taxpayer Bill of Rights (I.R.C. § 7803(a)(3)(I)) also guarantees the right of representation for taxpayers appearing before the IRS. This review also analyzed the extent to which Exempt Organizations Determinations (EOD) specialists in the Tax Exempt and Government Entities (TE/GE) Division’s Exempt Organizations (EO) Determinations business unit comply with taxpayers’ rights to representation.

Impact on Taxpayers

If taxpayers’ rights to representation are not adhered to by the IRS, they might not receive the benefits under the law and procedures to which they are entitled, and they may experience adverse outcomes.

What TIGTA Found

The IRS has a number of policies and procedures to help ensure that taxpayers are afforded the right to designate an authorized representative to act on their behalf in a variety of tax matters. In addition, the IRS has a process to handle the review and disposition of taxpayer allegations of direct contact violations.

TIGTA selected a statistically valid sample of case histories to review in the Field Collection function for 96 taxpayers who had collection actions documented on the Integrated Collection System between July 1, 2018, and June 30, 2019. TIGTA reviewed the case history narratives for these sampled cases and found three instances in which revenue officers contacted taxpayers directly, even though there was an authorized representative on file. The contacts appeared to have violated I.R.C. § 6304, which could indicate that the rights granted under I.R.C. § 7521 were also not protected. For six of the 96 cases, Field Collection function employees disclosed taxpayer information to individuals not authorized to receive that information.

TIGTA also selected for review a statistically valid sample of case histories in the EO Determinations area for 96 determination requests made by organizations that may have had direct contact made between July 1, 2018, and June 30, 2019. TIGTA determined that the Internal Revenue Manual (IRM) covering EO Determinations cases does not provide clear guidance on who the EOD specialist should contact when a valid power of attorney (POA) is on file, and allows the EOD specialist to bypass the POA and contact others.

What TIGTA Recommended

TIGTA made five recommendations including that the Director, Field Collection, SB/SE Division, report the potential I.R.C. § 6304 noncompliance identified in this report to the appropriate local Labor Relations Specialist, and reemphasize to revenue officers the importance of following the law and established guidelines and procedures on the taxpayer’s right to confidentiality. Also, the Commissioner, TE/GE Division, should revise Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code and/or the instructions to clearly allow for taxpayers to elect their POA as the initial contact with the EO Determinations function, and update EO Determinations training and the IRM to include bypass procedures and recognize the taxpayers’ election to have the POA serve as the main point of contact with the EO Determinations function.

The IRS agreed with all of our recommendations. SB/SE Division Field Collection plans to report potential I.R.C. § 6304 noncompliance identified in this report to the appropriate local Labor Relations Specialist, and reemphasize to revenue officers the importance of following the law and established guidelines and procedures on the taxpayer’s right to confidentiality and representation. The TE/GE Division plans to review Form 1023 and/or the instructions as well as EO Determinations training and the IRM and make any appropriate clarifications or revisions regarding bypass procedures.
August 19, 2020

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2020 Statutory Review of Restrictions on Directly Contacting Taxpayers (Audit # 202030023)

This report presents the results of our review to determine whether the Internal Revenue Service is in compliance with legal guidelines addressing the direct contact of taxpayers and their representatives as set forth in Internal Revenue Code (I.R.C.) Sections (§§) 7521(b)(2) and (c), and the fair tax collection practices set forth in I.R.C. § 6304(a)(2) and I.R.C. § 7803(a)(3)(I). This review is part of our Fiscal Year 2020 Annual Audit Plan and addresses the major management and performance challenge of Protecting Taxpayer Rights.

Management’s complete response to the draft report is included as Appendix III.

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 Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).
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Background

Taxpayers have a right to representation in matters before the Internal Revenue Service (IRS).\(^1\) Internal Revenue Code (I.R.C.) Sections (§§) 7521(b)(2) and (c) provide taxpayers the right to representation during interviews.\(^2\) The Treasury Inspector General for Tax Administration (TIGTA) is required to annually assess whether the IRS is protecting the taxpayers’ rights to representation under I.R.C. § 7521.\(^3\) I.R.C. § 6304(a) also protects taxpayers’ rights to representation by prohibiting collection-related contact of a taxpayer if the IRS has been appropriately notified that the taxpayer is represented.\(^4\)

The effort to determine whether the IRS is complying with I.R.C. §§ 7521(b)(2) and (c) (hereafter referred to as the direct contact provisions) and other provisions of the law protecting the right to representation is complicated by the fact that the IRS cannot proactively identify IRS employee violations of this law. TIGTA’s Office of Investigations receives complaints and initiates investigations based on those complaints. The Office of Investigations tracks those complaints and investigations using its Criminal Results Management System.

From July 1, 2018, to June 30, 2019, the Office of Investigations resolved nine complaints alleging that IRS employees bypassed taxpayer representatives and contacted taxpayers directly, and/or potentially violated the fair tax collection practices. The Office of Investigations evaluates all complaints and makes a determination as to whether it will initiate an investigation into the matter or take other appropriate action. During this period, five new investigations were initiated based on the nine complaints. The Office of Investigations closed five investigations from July 1, 2018, to June 30, 2019 (some of which may have been opened in prior years).

To designate power of attorney (POA) authority to a representative, a taxpayer files Form 2848, *Power of Attorney and Declaration of Representative*, with the IRS. Once received and validated, the IRS records the representative's authorization in its Centralized Authorization File, a computerized system of records that houses authorization information from both the POAs and...
tax information authorizations. This file is part of the Integrated Data Retrieval System, which can be used by IRS functions to determine when a taxpayer is working with an authorized representative.

Identifying the authorized representative during audit or collection activities is critical for IRS personnel because I.R.C. § 6103 prohibits disclosure of tax return information to third parties unless the taxpayer has authorized the IRS to make the disclosure. In addition, the direct contact provisions of I.R.C. § 7521 enacted on November 10, 1988, as part of the Omnibus Taxpayer Bill of Rights, created a number of safeguards to protect the rights of taxpayers interviewed by IRS employees as part of a tax examination or collection action. Specifically, IRS employees are required to:

- Stop the interview (unless initiated by an administrative summons) whenever a taxpayer requests to consult with a representative, i.e., any person, such as an accountant or attorney, who is permitted to represent taxpayers before the IRS.
- Obtain their immediate supervisor’s approval to contact the taxpayer instead of the representative if the representative unreasonably delays the completion of an examination, collection, or investigation.

The Senate Committee on Finance conducted numerous hearings in Calendar Years 1997 and 1998 addressing the rights of taxpayers. Several witnesses provided statements regarding abuses of taxpayer rights by IRS employees, including incidents in which employees failed to observe the taxpayers’ right to representation. Shortly after those hearings, the IRS Restructuring and Reform Act of 1998 was enacted into law, which directed the IRS to revise Publication 1, Your Rights as a Taxpayer, to better inform taxpayers of these rights. In addition, this Act added I.R.C. § 7803(d)(1)(A)(ii), which requires TIGTA to annually evaluate the IRS’s compliance with the direct contact provisions. In 2015, the right of taxpayers to be represented before the IRS was enacted into law as part of the Taxpayer Bill of Rights in I.R.C. § 7803(a)(3)(I). TIGTA has previously performed 21 annual reviews to meet this requirement. Appendix II lists the five most recent audit reports related to this statutory review.

Results of Review

The Internal Revenue Service Has a Process to Handle the Review and Disposition of Taxpayer Allegations of Direct Contact Violations

IRS management cannot track situations in which a taxpayer is denied the right to appropriate representation unless the taxpayer or his or her representative files a complaint with the IRS, TIGTA, Taxpayer Advocate Service, or his or her congressional Representative or Senator. The IRS has not put a system in place to systemically track violations of the direct contact provisions and does not plan to implement a system. However, the IRS has a process to ensure that

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reported allegations, including direct contact violations, are reviewed to determine if there was any employee misconduct.

The IRS Employee Conduct and Compliance office receives, processes, and tracks all complaint referrals, e.g., allegations not investigated by TIGTA, as well as reports of investigation that TIGTA forwards to the IRS. According to the IRS, the Employee Conduct and Compliance office is responsible for ensuring that IRS management addresses the complaint referrals to determine their proper disposition. It also tracks the disposition of TIGTA complaint referrals. These complaint referrals are assigned, tracked, and recorded on the Employee Issues Branch E-trak database.

During our review, we requested a report of all complaints received between July 1, 2018, and June 30, 2019, by the Employee Conduct and Compliance office and maintained on the E-trak database. We reviewed these cases and determined that the Employee Conduct and Compliance office closed four cases in which there were allegations of possible direct contact violations. We reviewed the details of the closed cases, and we agreed with the final disposition of each case.

For those complaint referrals in which there is action taken by IRS management, the dispositions of the complaint referrals (including any disciplinary actions for substantiated allegations) are entered into the Automated Labor and Employee Relations Tracking System to ensure the maintenance of historic records of employee misconduct. The use of this system also helps ensure consistency in recording employee misconduct and disciplinary actions, e.g., admonishment letters, employee suspensions, and employee removals.

Field Collection Employees Are Generally Following Procedures Intended to Protect Taxpayer Rights

The Small Business/Self-Employed (SB/SE) Division’s Field Collection employees record actions and decisions taken on cases within the Integrated Collection System (ICS). To determine how well Field Collection employees (revenue officers) are complying with the direct contact provisions and fair tax collection practices of the I.R.C., we obtained a download of ICS data from TIGTA’s Data Center Warehouse for all open and archived cases with action dates between July 1, 2018, and June 30, 2019. From this population, we selected a statically valid random sample of 96 cases.

We reviewed the case history narratives for these sampled cases and determined that revenue officers working the cases generally adhered to procedures that help ensure compliance with the direct contact provisions of I.R.C. § 7521(b)(2) and I.R.C. § 7521(c). However, in our review of SB/SE Division Field Collection sampled cases, we found instances of potential violations with the fair tax collection practices of I.R.C. § 6304(a)(2) (discussed later in this report).

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7 Internal Revenue Manual 5.1.10.8(1) (Dec. 11, 2018).
8 Our sampling plan was based on a 95 percent confidence interval, a ± 5 percent precision, and a 5 percent expected error rate. See Appendix I for more information related to our methodology for selecting our sample.
Revenue officers have a responsibility to protect a taxpayer’s right to privacy

Taxpayers have the right to confidentiality, and IRS employees are prohibited from disclosing taxpayer information to unauthorized individuals.9 This right is also addressed in the Taxpayers Bill of Rights as outlined in Publication 1, which states that the information taxpayers provide to the IRS will be released only if the disclosure is authorized by the taxpayer or by law. The IRS’s disclosure policies outline every IRS employee’s responsibility to protect the confidentiality of records and information entrusted to the IRS, and states that every IRS employee who has access to tax returns, return information, Personally Identifiable Information, and sensitive but unclassified information is charged with the responsibility of protecting the information from disclosure and is charged with the responsibility to know when disclosures are authorized.10 Publication 1 states that employees who disclose taxpayer return information without proper authorization may be disciplined. The Internal Revenue Manual (IRM) states that indications of willful disclosures of returns or return information must be reported to TIGTA, while no further corrective action is necessary once the employee and manager discuss the matter for inadvertent disclosures.11 Employees who are convicted of willfully disclosing any return or return information to an unauthorized party may be subject to a fine in any amount not exceeding $5,000, imprisonment of five years or less, or both. The employee would also be subject to paying for the costs of prosecution, and he or she may be subject to dismissal from the IRS.

In our review of the case history narratives from the ICS, we found potential disclosure violations in six of the 96 case files reviewed. In the six cases, revenue officers spoke with and provided confidential information to unauthorized parties who did not have a Form 2848 on file. Based on case reviews, there was no evidence indicating that the disclosures made in the six cases were authorized by either the taxpayer or the law. We provided the case history narratives and our observations to Collection function management, and they agreed that four instances could be potential violations of I.R.C. § 6103(a).

Field Collection management should ensure that revenue officers remain mindful of I.R.C. § 6103(a). When revenue officers disclose confidential taxpayer information to unauthorized parties or management does not take action on quality review results, the Field Collection function not only violates a taxpayer’s right to confidentiality, but it may also negatively affect taxpayers’ perception of the IRS as a trusted institution. Additionally, a

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10 Internal Revenue Manual 11.3.1.1 and 11.3.1.1.1 (Mar. 13, 2018).
11 IRM 11.3.1.10 (Mar. 13, 2018).
taxpayer who has had his or her right to confidentiality violated may bring a civil action for damages against the United States in a district court, which can result in other costs to the Government.¹²

Field Collection can take additional steps to ensure that revenue officers are protecting taxpayers’ right to representation

In three cases, the revenue officers did not secure managerial approval to bypass an authorized representative and deal with the taxpayer directly, and we found no evidence that the revenue officers provided notification to the POA on file of such a bypass. Specifically, for the three cases, the revenue officers improperly contacted the taxpayers directly when there was a valid POA on file or a Form 2848 was sent directly to SB/SE Division Field Collection. The revenue officers attempted to contact the taxpayers directly by telephone or in person during field calls instead of contacting the authorized representative listed in the ICS or in the Integrated Data Retrieval System. Based on the case reviews, there was no evidence indicating the POA was delaying the process. Additionally, NQRS staff identified similar findings in their FY 2018 and FY 2019 reviews of Field Collection. The NQRS reported the following:

- The right to representation was not observed in 144 (3.4 percent) instances out of 4,181 reviews and in 132 (3.9 percent) instances out of 3,419 case reviews in FYs 2018 and 2019, respectively.

The Field Collection IRM addresses POA bypass procedures. Revenue officers are instructed to consult with their group managers before beginning the bypass process, and the employees are also instructed to notify the POA of the potential bypass with Letter 4016-A, Bypass Warning Letter (Power of Attorney). The IRM provides detailed instructions for the revenue officer to follow if the representative impedes or delays the case.¹³ The IRM instructs group managers to report any potential employee violations of the fair tax collection practices to the local Labor Relations Specialist by the close of the next business day following notification of the alleged violation. If violations are confirmed, group managers are instructed to work with the Labor Relations Specialist to determine the next appropriate action.¹⁴

When SB/SE Division employees do not follow appropriate bypass procedures as described in their IRM, group managers do not identify direct contact violations during their case reviews, or management does not take action on quality review results, SB/SE Division employees may not only violate taxpayers’ right to receive appropriate and effective representation, but they may also negatively affect the outcome of these cases because taxpayers may not otherwise make an informed decision. We provided the case history narratives and our observations to Collection function management, and they agreed that these could be potential violations of I.R.C. § 6304(a)(2). Field Collection management should consider reemphasizing relevant requirements and procedures related to I.R.C. § 6304(a)(2) and I.R.C. §§ 7521(b)(2) and (c).

Revenue officer documentation of Publication 1 needs improvement

The IRM specifically requires revenue officers to provide taxpayers a copy of Publication 1 at the initial appointment if the taxpayers have not already received one. Once a copy of Publication 1

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¹² I.R.C. § 7431(a)(1).
¹³ IRM 5.1.23.5.1 (Aug. 19, 2011).
¹⁴ IRM 1.4.50.3.2.3 (Sep. 12, 2014).
has been provided, the revenue officer is to review Publication 1 with the taxpayer or his or her representative and answer any questions that he or she may have.\textsuperscript{15} We reviewed the sampled SB/SE Division Field Collection cases to determine whether these actions were documented in the case files. We found instances in which the revenue officer did not consistently follow IRM guidelines. Additionally, NQRS staff identified similar results for Field Collection for FYs 2018 and 2019 as follows:

- 282 (6.7 percent) of 4,181 reviews found that the revenue officer did not verify that the taxpayer received Publication 1 in FY 2018.
- 260 (7.6 percent) of 3,419 reviews found that the revenue officer did not verify that the taxpayer received Publication 1 in FY 2019.

According to the IRS, these violations are likely a consequence of the numerous requirements that revenue officers need to document upon initial contact and the revenue officer forgetting to document the discussion regarding taxpayer rights in the ICS case history. The IRS uses Publication 1 as the main document to inform taxpayers of their rights. Publication 1 also includes a contact number for TIGTA, for which suspected violations of the direct contact provision and other potential misconduct or abuse by IRS personnel can be reported. Further, the Taxpayer Bill of Rights as published in Publication 1 is also codified under I.R.C. § 7803(a)(3). The IRS could better ensure that taxpayers are informed of their rights during interviews if revenue officers verified that Publication 1 was provided and explained during the initial contact. TIGTA believes that taxpayers should be informed of their rights and most importantly understand them and any potential consequences.

The Director, Field Collection, should:

**Recommendation 1:** Ensure that managers discuss inadvertent disclosures of taxpayer return or return information, as specified under I.R.C. § 6103(a), with the responsible employee and report willful disclosures to TIGTA.

**Management’s Response:** IRS management agreed with this recommendation. Field Collection will ensure that managers discuss inadvertent disclosures of taxpayer return or return information, as specified under I.R.C. § 6103(a), with the responsible employee and report willful disclosures to TIGTA.

**Recommendation 2:** Ensure that managers appropriately report the cases that TIGTA identified with potential I.R.C. § 6304(a)(2) violations to the appropriate local Labor Relations Specialist.

**Management’s Response:** IRS management agreed with this recommendation. Field Collection will ensure that managers appropriately report the cases that TIGTA identified with potential I.R.C. § 6304(a)(2) violations to the appropriate local Labor Relations Specialist.

**Recommendation 3:** Reemphasize the importance of revenue officers following established guidelines and procedures on the taxpayer’s right to representation, including enclosure of

\textsuperscript{15} IRM 5.1.10.3.2(3) (Dec. 11, 2018).
Publication 1 in correspondence, discussing those rights during the initial taxpayer interview process, and documenting those actions in the case history narrative.

Management’s Response: IRS management agreed with this recommendation. The Director, Collection Policy, will develop and distribute a memorandum to revenue officers reemphasizing the importance of revenue officers following established guidelines and procedures on the taxpayer’s right to representation, including enclosure of Publication 1 in correspondence, discussing those rights during the initial taxpayer interview process, and documenting those actions in the case history narrative.

The Exempt Organizations Determinations Business Unit Procedures Need Refining to Better Protect Taxpayers’ Right to Representation

The Tax Exempt and Government Entities (TE/GE) Division Exempt Organizations (EO) Determinations business unit (hereafter referred to as EO Determinations) is responsible for processing applications for tax exempt status and other determination requests, such as requests submitted on Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code and Form 1024, Application for Recognition of Exemption Under Section 501(a). We obtained a download of 115,568 active and closed cases worked by EO Determinations from July 1, 2018, through June 30, 2019. From this population, we selected a statistically valid random sample of 96 cases. Those cases were reviewed to determine TE/GE Division EO Determinations’ observance of the taxpayer’s right to representation under I.R.C § 7803(a)(3)(I).

We found in three of the 96 cases, the EO Determinations (EOD) specialist either contacted or attempted to contact the primary point of contact on Form 1023 instead of or before contacting the taxpayer’s POA.

When an EOD specialist receives a Form 2848 and determines that the form is invalid, the EO Determinations IRM instructs the EOD specialist on how to proceed, depending on whether the EOD specialist needs more information from the taxpayer to make a determination. If the EOD specialist does not need additional information, he or she prepares the determination letter and sends it only to the organization. In the event the EOD specialist needs additional information, the IRM provides that the EOD specialist generally should send the invalid Form 2848 back to the organization with the additional information request (Letter 1312, Request for Additional Information) and explain why the form is invalid. In all three cases, the Form 1023, Line 7, was marked “yes” as shown in Figure 1 and a Form 2848 was provided, making clear the intent to exercise the right to representation authorizing the IRS to communicate directly with the taxpayer’s elected representative.

16 Our sampling plan was based on a 95 percent confidence interval, a ± 5 percent precision, and a 5 percent expected error rate. See Appendix I for more information related to our methodology for selecting our sample.

17 IRM 7.20.1.6.1.3(3) (Oct. 19, 2015).
I.R.C. § 7803(a)(3)(I) states that taxpayers have the right to retain representation. Based on our review of the three case histories, the EOD specialist sent Letter 1312 to request additional information and either contacted or attempted to contact the primary contact listed on Form 1023, Line 6, who was not the taxpayer’s representative listed on Form 2848. The case history narratives also did not mention whether the Form 2848 was invalid or if the EOD specialist sent the Form 2848 back to the organization when the Letter 1312 was sent. In addition, we did not find evidence that the EOD specialist attempted to contact the taxpayer or representative to obtain a valid POA before sending Letter 1312 or before any other case action was taken.

While the applications for these three cases were eventually approved, we are concerned that the current Form 1023 for EO Determinations may result in the EOD specialist contacting the organization and not the taxpayer’s POA when an adverse determination might be made. When taxpayers hire a POA, they are doing so with the expectation that the POA will handle contacts with the IRS. Taxpayers are also relying on the expertise of the POA to make sure the correct forms are completed and the correct information is provided to the IRS. By contacting the taxpayer instead of the hired representative, the taxpayer may feel pressured to provide information immediately and inadvertently provide the wrong information that would result in an adverse determination.

We also found that EO Determinations training does not specify that when an organization has a POA, the POA should be the main point of contact. An EOD specialist may interpret the lack of guidance as permission to contact the primary point of contact on Form 1023 directly, even when a taxpayer has made it clear that he or she wishes to be represented by their designated representative on a valid Form 2848 and/or Form 1023 application, Line 7.

It is problematic that EO Determinations allows EOD specialists to bypass authorized representatives without an appropriate objective analysis of whether the POA is nonresponsive or has otherwise become an impediment to resolving the issue with the taxpayer’s application for nonprofit status. The Field Collection procedures, which we discussed earlier in this report, protect these rights by addressing the specific circumstances pertaining to POA bypass procedures. Revenue officers are instructed to consult with their group managers before beginning the bypass process and are also instructed to notify the POA of the potential bypass with Letter 4016-A. The Field Collection IRM provides detailed instructions for the revenue officer to follow if the representative impedes or delays the case. Based on our review of the EO Determinations case history narratives, the POA did not impede or delay these cases.

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18 IRM 7.20.2.4(4) (May 8, 2018).
19 IRM 5.1.23.5.1 (Aug. 19, 2011).
The Commissioner, TE/GE Division, should:

**Recommendation 4:** Revise Form 1023 and/or instructions to ensure that taxpayers who are applying for exempt status and who have a valid POA can clearly elect whether they or their POA should serve as the initial contact with EO Determinations.

*Management’s Response:* IRS management agreed with this recommendation. The TE/GE Division will review the current determination procedures, Form 1023, and instructions and make any appropriate clarifications or revisions to further ensure taxpayers’ right to representation in the determination process.

**Recommendation 5:** Update EO Determinations training and IRM to include bypass procedures and to stress that, when an organization is represented by a valid POA, the taxpayer can elect whether they or their POA should serve as the main point of contact with EO Determinations.

*Management’s Response:* IRS management agreed with this recommendation. The TE/GE Division will update EO Determinations training and the IRM to reflect any clarified or revised procedures made pursuant to Recommendation 4.
Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the IRS was in compliance with legal guidelines addressing the direct contact of taxpayers and their representatives as set forth in I.R.C. §§ 7521(b)(2) and (c), and the fair tax collection practices set forth in I.R.C. § 6304(a)(2) and I.R.C. § 7803(a)(3)(I). To accomplish our objective, we:

- Determined the procedures and controls the IRS uses to ensure that employees are following the direct contact provisions, fair tax collection practices, and taxpayer right to representation.
  - Contacted IRS officials in the SB/SE and TE/GE Divisions to determine if a system was developed or is planned to identify those cases in which taxpayers have requested consultation with a representative or in which an IRS employee bypassed a representative and directly contacted the taxpayer.
  - Conducted searches on the IRS intranet and contacted IRS officials to identify any guidance provided to employees to help them meet the direct contact provisions and the fair tax collection practices and to group managers to help them provide oversight of their employees’ compliance with the direct contact provisions and the fair tax collection practices.
  - Reviewed IRS policies and procedures and contacted IRS officials to identify how the IRS informs taxpayers of the IRS’s prohibition on directly contacting taxpayers when a representative had been requested.
  - Reviewed prior TIGTA Direct Contact reports for FYs 2015 through 2019 to identify the status of prior recommendations and the IRS’s corrective actions taken.

- Determined whether SB/SE Division Field Collection and TE/GE Division EO Determinations provided training/learning opportunities that adequately address the direct contact provisions of I.R.C. §§ 7521(b)(2) and (c), the fair tax collection practices of I.R.C. § 6304(a)(2), and the taxpayer’s right to representation under I.R.C. § 7803(a)(3)(I).
  - Contacted SB/SE and TE/GE Division management to determine what training was available and how it was delivered to TE/GE and SB/SE Division employees on the direct contact provisions of I.R.C. §§ 7521(b)(2) and (c), the fair tax collection practices of I.R.C. § 6304(a)(2), and the taxpayer’s right to representation under I.R.C. § 7803(a)(3)(I). We obtained their feedback on whether perceptions on these I.R.C.s have changed.
  - Requested and reviewed all training materials to determine whether they address and remind employees of taxpayer rights specified in the I.R.C., including those pertaining to the direct contact provisions, the fair tax collection practices, and the taxpayer’s right to representation.

- Determined how well the IRS was ensuring that taxpayer rights, under the direct contact provisions, fair tax collection practices, and taxpayer right to representation, are protected by SB/SE Division Field Collection and by TE/GE Division EO Determinations.
Reviewed a statistical random sample of SB/SE Division Field Collection cases that have contact history narratives between the dates of July 1, 2018, and June 30, 2019.

- Pulled ICS histories off TIGTA’s Data Center Warehouse where the history action date was between July 1, 2018, and June 30, 2019, and selected a statistical random sample of taxpayers in accordance with our sampling plan.
- Reviewed each case on the ICS to see if there are any potential violations of I.R.C. §§ 7521(b)(2) and (c), I.R.C. § 6304(a)(2), or I.R.C. § 7803(a)(3)(I).

Reviewed a statistical random sample of TE/GE Division EO Determinations cases with potential contact history narratives between the dates of July 1, 2018, and June 30, 2019.

- Pulled Tax Exempt Determination System cases that had activity between July 1, 2018, and June 30, 2019.
- Determined which cases likely involved contact with either the taxpayer or representative.
- Selected a random sample of cases to review in accordance with our sampling plan.
- Reviewed selected cases on the Tax Exempt Determination System to determine if there were any potential violations of I.R.C. § 7803(a)(3)(I).

For any exception cases identified, determined managerial and quality review involvement and obtained concurrence with exceptions found.

- Provided the Taxpayer Identification Number and case history narratives to the IRS identifying the potential violation.
- Obtained the IRS’s concurrence on potential violations and the cause for the violation.

Contacted officials in the IRS Human Capital Office to identify any taxpayer complaints resulting from potential IRS employee direct contact violations.

- Obtained and reviewed any direct contact complaints recorded on the E-trak system from July 1, 2018, through June 30, 2019, and identified and documented the resolution or current status of the complaints and the number of taxpayers involved.

Reviewed the direct contact complaints and investigations closed by TIGTA’s Office of Investigations from July 1, 2018, through June 30, 2019, and tracked on the Criminal Results Information Management System.

Performance of This Review

This review was performed with information obtained from the offices of the SB/SE and TE/GE Divisions located in Washington, D.C., during the period October 2019 through June 2020. 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.
Major contributors to the report were Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Christina M. Dreyer, Director; Javier L. Fernandez, Audit Manager; Jesse Fenton, Lead Auditor; and Stephanie Finlay, Auditor.

**Sampling Methodology**

We used TIGTA’s contracted statistician to select a statistically valid random sample of cases worked and with taxpayer contact between July 1, 2018, and June 30, 2019, for SB/SE Division Field Collection and for TE/GE Division EO Determinations. We conducted case reviews using a 95 percent confidence level, 5 percent error rate, and ±5 percent precision. We oversampled by 10 percent to ensure randomness of the sample if we decided to expand the sample size to ensure that we had a sample size sufficient to project any identified errors to the population. Based on our discussion with the contracted statistician, we calculated that the random sample size would be 96 cases in each of the two business units; i.e., a random sample of 96 cases in SB/SE Division Field Collection and another random sample of 96 cases in TE/GE Division EO Determinations.

**Validity and Reliability of Data From Computer-Based Systems**

We performed tests to assess the reliability of data from the ICS and the Tax Exempt Determination System. We evaluated the data by 1) performing electronic testing of required data elements, 2) reviewing existing information about the data and the system that produced them, and 3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.

**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 that the following internal controls were relevant to our audit objective: the IRS’s policies, procedures, and practices related to responding to taxpayer and taxpayer representative allegations of IRS employee violations of the direct contact provisions of I.R.C. §§ 7521(b)(2) and (c), the fair tax collection practices of I.R.C. § 6304(a)(2), and the general right to representation set out in I.R.C. § 7803(a)(3)(I). We evaluated these controls by contacting management, reviewing IRM guidance provided to managers and employees, reviewing closed complaints and investigations from TIGTA’s Criminal Results Management System, identifying closed cases tracked on the IRS’s E-trak database, and reviewing case history narratives associated with the selected cases.
Appendix II

Previous Audit Reports Related to This Statutory Review


August 5, 2020

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Eric C. Hylton
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Fiscal Year 2020 Statutory Review of Restrictions on Directly Contacting Taxpayers (Audit # 202030023)

Thank you for the opportunity to review the above subject draft audit report. We appreciate your recognition that Field Collection employees are generally following procedures intended to protect taxpayers’ rights.

TIGTA last focused this audit on Field Collection in 2017. As a result of that audit, we provided guidance to Field Collection revenue officers to clarify the requirement to suspend an interview when the taxpayer wishes to seek representation and to clarify the timeframe to allow taxpayers to consult with a representative. The guidance also explained that revenue officers should not contact the representative to seek an updated Form 2848, Power of Attorney and Declaration of Representative, when all open periods are not reflected on the form.

In this year’s review TIGTA found a small number of instances in which revenue officers spoke with unauthorized parties who did not have a Form 2848 on file or contacted taxpayers directly even though there was an authorized representative on file. TIGTA also found a small number of instances in which the case history did not reflect that Publication 1, Your Rights as a Taxpayer, was provided or discussed during the RO’s initial contact. We will take corrective actions to address those issues.

With respect to Exempt Organizations (EO), within the Tax Exempt/Government Entities Division (TE/GE), we appreciate that TIGTA reported no instances of taxpayer complaints about communication to the applicant’s primary contact or any other alleged violation of the right to representation. TIGTA “reviewed [cases] to determine TE/GE Division EO Determinations’ observance of the taxpayer’s right to representation under Internal Revenue Code (I.R.C.) § 7803(a)(3)(I).” TIGTA asserts that IRS should update its procedures to better protect taxpayers’ right to representation under I.R.C. § 7803. In fact, current TE/GE procedures implement and respect a taxpayer’s right to
representation under that provision. TE/GE may communicate orally with a primary contact whom an applicant for tax-exempt status explicitly identifies on its application as an “individual who is permitted to speak with [the IRS].” Because all EO “determinations are based on the administrative record” and any oral representation of additional fact must be reduced to writing and signed under penalties of perjury, any “oral discussions pertaining to an EO application would not have any impact on whether the final determination is favorable or adverse.” See Revenue Procedure 2020-5 § 3.05; Program Manager Technical Advice (PMTA) 2019-12. An applicant may, but is not required to, identify a Power of Attorney (POA) as the primary contact. An applicant that doesn’t choose a POA as its primary contact may still identify a POA to represent it as part of its application. Where an applicant has identified a POA, EO Determinations will send to that POA all correspondence which will become part of the administrative record on which the determination is made. EO Determinations also will discuss issues or items in the application when contacted by the POA. Accordingly, TIGTA’s suggestion that TE/GE procedures do not protect a taxpayer’s right to representation under I.R.C. § 7803 – both to identify a primary contact of its choosing and retain a POA – is not accurate.

I.R.C. § 7803(a)(3) requires the Commissioner to ensure that IRS employees are familiar with and act in accordance with “taxpayer rights as afforded by other provisions of [Title 28], including the “right to retain representation”; it does not itself provide any rights to taxpayers. See Facebook, Inc. v. Internal Revenue Serv., 2018 WL 2215743, at *13 (N.D. Cal. 2018) (holding that the statutory “taxpayer bill of rights” codified in § 7803(a)(3) does not create any new rights for taxpayers). Under the Statement of Procedural Rules, § 601.506(b) restricts contact to the representative, but only during an examination, collection, or investigation. In this report, the interpretation of § 7803 may create new taxpayer rights and apply them to the EO determination process.

A determination is not like an examination or collection activity in which the taxpayer is on the defensive against additional tax liability. An applicant seeking recognition of tax-exempt status may wish to hear directly from EO Determinations; hence, the designation of a primary contact. Whether they are small charities with volunteer staff or large institutions with in-house counsel, applicants may wish to review IRS inquiries and requests before referring particular questions to a paid representative. Under the right to representation, the applicant designates as the primary contact any individual the applicant may authorize, so the EO function calls that primary contact, even as we may answer calls from and share information with an authorized representative with a valid POA. In any case, TE/GE is fully committed to protecting all taxpayers’ rights. Accordingly, TE/GE will review its determination procedures and consider whether clarifications or revisions can be made to further ensure taxpayers understand their rights to representation in the EO Determinations process.
We value your recommendations to help us improve our processes. We have worked and will continue to work to protect taxpayer rights. Attached is a detailed response outlining our corrective actions to address your recommendations.

If you have any questions, please contact me or Paul Mamo, Director, Collection Operations, Small Business/Self-Employed Division.

Attachment
RECOMMENDATION 1:
The Director of Field Collection should ensure that managers discuss inadvertent disclosures of taxpayer return or return information, as specified under I.R.C. § 6103(a), with the responsible employee and report willful disclosures to TIGTA.

CORRECTIVE ACTION:
We will ensure that managers discuss inadvertent disclosures of taxpayer return or return information, as specified under I.R.C. § 6103(a), with the responsible employee and report willful disclosures to TIGTA.

IMPLEMENTATION DATE:
December 15, 2020

RESPONSIBLE OFFICIAL:
Director, Field Collection Operations, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:
The Director of Field Collection should ensure that managers appropriately report the cases that TIGTA identified with potential I.R.C. § 6304(a)(2) violations to the appropriate local Labor Relations Specialist.

CORRECTIVE ACTION:
We will report the cases TIGTA identified during this audit with potential I.R.C. § 6304(a)(2) violations to the local Labor Relations Specialist.

IMPLEMENTATION DATE:
December 15, 2020

RESPONSIBLE OFFICIAL:
Director, Field Collection Operations, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.
RECOMMENDATION 3:
The Director of Field Collection should reemphasize the importance of its revenue officers following established guidelines and procedures on the taxpayer’s right to representation, including enclosure of Publication 1 in correspondence, discussing those rights during the initial taxpayer interview process, and documenting those actions in the case history narrative.

CORRECTIVE ACTIONS:
1. We will develop a memo for Field Collection to distribute, reemphasizing the importance of revenue officers following established guidelines and procedures on the taxpayer’s right to representation, including enclosure of Publication 1 in correspondence, discussing those rights during the initial taxpayer interview process, and documenting those actions in the case history narrative.
2. We will distribute the memo referenced in corrective action 1 to Field Collection revenue officers.

IMPLEMENTATION DATES:
1. January 15, 2021
2. March 15, 2021

RESPONSIBLE OFFICIALS:
1. Director, Collection Policy, Small Business/Self-Employed Division
2. Director, Field Collection Operations, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4:
The Commissioner, TE/GE Division, should revise Form 1023 and/or instructions to ensure that taxpayers who are applying for exempt status and who have a valid POA can clearly elect whether they or their POA should serve as the initial contact with the EO Determinations function.

CORRECTIVE ACTION:
We will review current determination procedures, Form 1023, and instructions and make any appropriate clarifications or revisions to further ensure taxpayers’ right to representation in the determination process.

IMPLEMENTATION DATE:
April 15, 2021
RESPONSIBLE OFFICIAL:
Director, Exempt Organizations and Government Entities

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5:
The Commissioner, TE/GE Division, should update the EO Determinations training and Internal Revenue Manual (IRM) to include bypass procedures and to stress that, when an organization is represented by a valid POA, the taxpayer can elect whether they or their POA should serve as the main point of contact with the EO Determinations function.

CORRECTIVE ACTION:
We will update the EO Determinations training and IRM to reflect any clarified or revised procedures made pursuant to Recommendation 4.

IMPLEMENTATION DATE:
April 15, 2021

RESPONSIBLE OFFICIAL:
Director, Exempt Organizations and Government Entities

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.
Appendix IV

# Glossary of Terms

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<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>Automated Labor and Employee Relations Tracking System</td>
<td>An application used to track labor/employee relations case data. It was developed to ensure consistency in tracking labor and employee relations disciplinary actions.</td>
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<tr>
<td>Calendar Year</td>
<td>The 12-consecutive-month period ending December 31.</td>
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<tr>
<td>Centralized Authorization File</td>
<td>A computerized system of records that houses authorization information from both the POAs and tax information authorizations. It contains several types of records, among them taxpayers, representatives, tax forms, tax periods, and authorizations.</td>
</tr>
<tr>
<td>Criminal Results Management System</td>
<td>A management information system that provides TIGTA Office of Investigations the ability to manage and account for complaints received, including congressional inquiries, investigations initiated, and leads developed from local investigative initiates and national investigative initiates.</td>
</tr>
<tr>
<td>E-trak</td>
<td>A Service-wide, web-based internal document tracking system that was designed to assist IRS leadership and business units to timely and effectively manage their responses to issues raised by taxpayers, IRS employees, Congress, Department of the Treasury, the White House, the Government Accountability Office, and TIGTA.</td>
</tr>
<tr>
<td>Exempt Organizations</td>
<td>An IRS function that administers tax law governing charities, private foundations, and other entities exempt from Federal income tax.</td>
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<tr>
<td>Field Collection</td>
<td>An IRS function within the SB/SE Division that is responsible for helping taxpayers understand and comply with all applicable tax laws and applies the tax laws with integrity and fairness. It is also responsible for protecting the revenue and the interests of the Government through direct collection and enforcement activity with taxpayers or their representatives.</td>
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<tr>
<td>Fiscal Year</td>
<td>Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government’s fiscal year begins on October 1 and ends on September 30.</td>
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<td>Integrated Collection System</td>
<td>A major information management system designed to improve revenue collections by providing electronic case processing to SB/SE Division revenue officers, their managers, and support staff. Other users of the ICS include the Office of Chief Counsel, Appeals, and various areas of SB/SE Division management staff.</td>
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<tr>
<td>Integrated Data Retrieval System</td>
<td>IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer’s account records.</td>
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<tr>
<td>Internal Revenue Code</td>
<td>The Federal tax law, enacted by Congress in Title 26 of the United States Code. It is organized by topics such as income, estate and gift, employment, and miscellaneous excise taxes.</td>
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<tr>
<th><strong>Internal Revenue Manual</strong></th>
<th>The official source of IRS policies, procedures, and guidelines.</th>
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<td><strong>Power of Attorney</strong></td>
<td>A taxpayer’s written authorization for a designated individual or individuals to perform certain specified acts on the taxpayer’s behalf.</td>
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<td><strong>Revenue Officer</strong></td>
<td>A Field Collection employee who is responsible for collecting delinquent taxes and securing overdue tax returns within the guidelines established by the I.R.C. and procedures outlined in the IRM. To fulfill these responsibilities, revenue officers conduct face-to-face interviews with taxpayers (and/or their representatives), inform taxpayers of their legal rights, obtain and analyze financial information to determine the taxpayer’s ability to pay the taxes, and educate and promote voluntary compliance in accordance with the tax laws and regulations.</td>
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<tr>
<td><strong>Tax Exempt and Government Entities Division</strong></td>
<td>IRS operating division that ensures that pension plans, exempt organizations, and government entities comply with the tax laws.</td>
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<td><strong>Tax Period</strong></td>
<td>The period of time for which a tax return is filed. The IRS uses a six-digit code to indicate the end of the tax period for a given return. (The first four digits represent the year and the next two digits represent the month).</td>
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<td><strong>Taxpayer Advocate Service</strong></td>
<td>An independent organization within the IRS that works to protect taxpayers' rights by ensuring that all taxpayers are treated fairly and that they know and understand their rights.</td>
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<td><strong>Treasury Inspector General for Tax Administration's Data Center Warehouse</strong></td>
<td>A collection of IRS data files containing various types of taxpayer account information that is maintained by TIGTA for the purpose of analyzing the data for audits and investigations.</td>
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<td><strong>Treasury Inspector General for Tax Administration's Office of Investigations</strong></td>
<td>The Office of Investigations’ overall mission is to help protect the ability of the IRS to collect revenue for the Federal Government. It conducts investigations and proactive investigative initiatives to ensure the integrity of IRS employees, contractors, and other tax professionals; ensure IRS employee and infrastructure security; and protect the IRS against external attempts to corrupt tax administration.</td>
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## Abbreviations

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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>EO</td>
<td>Exempt Organizations</td>
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<td>EOD</td>
<td>Exempt Organizations Determinations</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>ICS</td>
<td>Integrated Collection System</td>
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<tr>
<td>I.R.C.</td>
<td>Internal Revenue Code</td>
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<td>IRM</td>
<td>Internal Revenue Manual</td>
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<td>IRS</td>
<td>Internal Revenue Service</td>
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<td>NQRS</td>
<td>National Quality Review System</td>
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<td>POA</td>
<td>Power of Attorney</td>
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<td>SB/SE</td>
<td>Small Business/Self-Employed</td>
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<td>TE/GE</td>
<td>Tax Exempt and Government Entities</td>
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<tr>
<td>TIGTA</td>
<td>Treasury Inspector General for Tax Administration</td>
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