



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

Date: August 14, 2008

CONTROL NO: TEGE-04-0808-03

MEMORANDUM FOR: ALL ITG Managers,
ALL ITG Specialists,
CPM Staff

From: Christie Jacobs
Director, ITG

A handwritten signature in black ink, appearing to read "C Jacobs".

Subject: Interim Guidance on ITG Project Guidelines and Procedures

The purpose of this memo is to issue interim guidance required for Indian Tribal Governments Specialists. Please ensure that this information is distributed to all affected employees within our organization.

1. Source(s) of Authority: The Indian Tribal Governments office of TEGE is the principal IRS contact with the governments of American Indians and Alaskan Natives.
2. Effect on Other Documents: This guidance will be incorporated into IRM 4.87.1.4, Work Assignments within one year from the date of this memo.
3. Contact: The IRM Coordinator, Compliance Program Management (Group 7871) is the principal author of this IRM guidance.
4. Expiration Date: August 15, 2009.

Attachment: ITG Project Guidelines and Procedures

Cc: IMD Coordinator
Office of Servicewide Policy, Directives, & Electronic Research
www.irs.gov

ITG Compliance Project Guidelines and Procedures

Part 1 – Project Overview

Introduction

The purpose of the ITG workload selection process is to integrate the information developed through annual compliance analysis, with feedback from employees and from environmental scanning, to determine the optimal methods of identifying examination and compliance check workload in each year's work plan.

An effective workload selection process should accomplish several key tasks:

1. Generate work that addresses issues pertaining to non-compliance on a national level.
2. Be data driven, to the fullest extent possible.
3. Be consistent with the balanced measures created by ITG.
4. Ensure fair treatment of each taxpayer by addressing potential horizontal equity issues.
5. Ensure adequate controls are in place in accordance with Servicewide work assignment and approval requirements.
6. Be flexible enough to accommodate Work Plan adjustments e.g., new legislation, and court decisions.
7. Provide the ITG field group managers the flexibility they need to balance local concerns with national priorities.

This document establishes procedures for proposing, developing and implementing compliance projects and analyses.

The ITG workload selection process incorporates information from several sources to ensure workload selection is data driven, consistent with our balanced measures and reflective of our customers' needs. Some examples of these sources are:

1. ITG compliance initiatives
2. ITG compliance analyses
3. ITG balanced measures
4. ITG Annual Work Plans
5. Findings from the annual ITG Customer Satisfaction Surveys

Types of Projects

Compliance Projects

- General Compliance Initiatives
- Abusive Tax Avoidance Transaction (ATAT) projects
- Outreach and Educational initiatives

Compliance Analyses

- Market segment studies
- Data analyses that suggest compliance issues on a national basis

A. Compliance Projects

1. Definition

A compliance project is designed to address an identified issue, which may or may not be associated with a particular market segment. This type of project is intended to correct a known area of noncompliance through examinations, compliance checks, educational programs, or other activities that may not involve the examination of books and records. Those that involve examinations typically include returns screened for the presence of the targeted issue.

2. Project Design

The nature of the issue and information available on the issue will necessarily frame how the project is designed. Some issues may be best addressed through an educational initiative. Others may require compliance checks or examinations. The issue may be one that is directly identifiable in an inspection of a return.

IRS internal databases will be used for all compliance projects that base selection on return information or generic population criteria. Other identification and selection methods/sources will be utilized when they are available and appropriate. These outside sources may include other IRS operating divisions, federal, state and local agencies, the Internet, and external stakeholders.

B. Compliance Analyses

1. Definition

Compliance analyses are initiatives that further the federal tax administration process as it relates to Indian tribal governments. These efforts support the work selection process and include identifying current and emerging issues related to ITG's mission, providing the ITG field groups with support through analysis of filing and information reporting data, and identifying and prioritizing workload, in concert with the ITG Annual Work Plan.

2. Project Design

A variety of approaches may be taken to structure a compliance analysis to achieve the desired outcomes. Statistical sampling tools and other research methodologies may be employed to tailor the design of each analysis.

Customer surveys, focus groups, listening sessions and feedback from stakeholders in tribal tax administration also may be considered. TE/GE Research and Analysis staff may be consulted for assistance.

C. General Procedures

1. Project Generation

Suggestions for projects come from a variety of sources. ITG managers and employees are encouraged to submit ideas for potential compliance projects and analyses. The ITG Knowledge Sharing Groups play an important role in the review and analysis of tax compliance issues and work processes. They may also contribute to the definition and execution of compliance projects.

Workload selection projects do not affect the ability of a Group Manager to request approval to generate compliance workload based on his or her experience and knowledge of issues in the field. Also, they do not address the development of work for ITG's special enforcement program (ADAPT) which focuses on schemes, fraud and illegal income. In all cases, requests must be justified as to their importance, as well as possible negative impact on other work or horizontal equity.

2. Preliminary Analysis

A fact based justification must be given for any project or analysis. The rationale for pursuing a particular project must be properly documented so stakeholders, including those with oversight responsibility, may have an understanding of the process.

Part 2 – ITG Procedures

A. Project Phases

1. Development Phase

The first phase, the development phase, begins when an issue or set of circumstances suggest the need for further investigation or treatment of a particular aspect of tax administration within ITG jurisdiction.

The developmental phase ends when the project or analysis is ready for implementation. In the case of a compliance project it may be when examination cases are sent to the field by CPM, compliance check letters are mailed, the project is abandoned, etc. In the case of a compliance analysis, the end of the developmental phase may be when analysis produces criteria for selecting cases for examinations or compliance checks.

2. Prepare Preliminary Action Plan

The preliminary action plan represents an outline of the project, and lists all the generic steps to be taken to develop and implement the project. Actions need not be carried out consecutively. Whenever possible, actions should be scheduled to occur simultaneously.

3. Gather Information

CPM and other appropriate ITG staff, like "natural work groups" will gather information from available sources:

- Databases maintained within TE/GE and by other operating divisions

- TE/GE management reports or historical information
- Statistics of Income (SOI), TE/GE Research and Analysis
- External publications and trade journals
- Other federal, state and local agencies
- Conferences and seminars on related tribal or tax administration topics
- IRS Intranet
- Advisory and oversight groups
- External stakeholders
- Internet

4. Consider External Stakeholder Input

External stakeholder involvement is an important consideration in the development of any project. ITG may consider seeking outside stakeholder input in the development of strategies to address the project.

5. Determine the Size, Scope and Methodology of the Project

ITG may have to modify the scope or methodology to accommodate more recent information or to perfect the research strategy.

The methodology of the project can include but is not limited to the following:

- Examinations
- Compliance Checks
- Educational or outreach initiatives
- Development of training material
- Drafting technical guidance to both the field and the public
- Data gathering methods must be clearly spelled out in the project proposal.

6. Product Preparation

CPM is responsible for preparing any unique products used in the project.

7. Determine Resource Needs

During planning, CPM will estimate resource needs for the project. The team will describe the estimated resources needed to execute the project, including hours to be expended by type of employee.

8. Requests for Assistance from Other Divisions

If necessary, CPM will make a request for technical assistance from other TE/GE organizational units or IRS operating divisions. The memorandum will describe the type of expertise or assistance requested, the approximate length of any detail and the estimated number of hours needed.

9. Consultation(s) with TE/GE Research and Analysis

TE/GE Research and Analysis may be consulted in projects for assistance with RICS in defining the population, determining an appropriate sample size, drawing a random sample, analyzing results, and ensuring statistical findings are presented in a concise manner.

10. Run RICS or Other Queries for Analysis

CPM will run any needed data base queries.

CPM may determine through their analysis that the project should include statistical sampling of the entire population. The population from which the sample is selected will determine how far the conclusions can be applied.

CPM may also determine that due to the nature of a compliance initiative, for example, a selected or stratified sample may be more appropriate. The project proposal must include a discussion of the methodology for the samples selected.

The Office of Disclosure will be consulted for advice on the use of information supplied by third party data.

Prior to pulling project returns and assigning them to the groups, CPM should pull a small sample of the returns using the criteria developed in order to validate those criteria.

11. Update Action Plan

The action plan will be updated to list all of the steps to be taken to develop and implement the project. It should include at least the following items:

- A projected start date for each phase of the project. (development, implementation, analysis)
- A projected completion date for each phase of the project.
- A short description of each necessary action, the person responsible, the estimated start date, and the expected completion date for each action.

12. Prepare Project Proposal and Brief Director, ITG

All projects require advance approval. Projects will be proposed and approved through a "project proposal memorandum". At a minimum, the proposal form must address the following topics:

- Background and Objectives
- Market Segment
- Data Sources
- Data Security
- Measures and Analysis
- Cost/Benefit
- Time Frames/Action Plan

- Levels of Approval and Concurrence
- Signature and Date lines for the Manager, CPM and the Director, ITG

13. Approval of Project Proposal

Approval beyond the ITG Director may be required If additional staff, resources and cooperation are needed.

B. Implementation Phases

This phase is defined as the date the project activities begin. This phase ends when the project's core activities are concluded. Appropriate project management tools will be used to plan and record the progress of the project.

1. Prepare a Project Guidance Memorandum

CPM may prepare a project guidance memorandum that provides specific instructions executing the project.

2. Delivery of any Specialized Training

Specialized training should be given by qualified individuals. This can be conducted as part of the initial conference call. Training costs need to be identified, included in the training plan and approved as soon as possible in the planning process.

3. Maintain Contact with Managers

Throughout the project, CPM will maintain contact with managers working the project. Periodic teleconferences may be held to share information, assess progress, identify emerging issues or problems, share examination techniques, etc. to ensure consistency in approaches and issue resolutions.

4. Provide Support to Employees

CPM is responsible for providing full technical and procedural support for Specialists throughout the course of the project.

5. Inventory Reports for Open and Closed Cases

At the group level, managers must monitor project inventory and be involved in the development and processing of the cases to ensure project procedures are followed and timely case closure.

6. Compile and Analyze Data

CPM will input the data as received and conduct the initial analysis. Data security will be maintained at all times. Preliminary results could potentially indicate a project needs to be expanded, modified, or discontinued. Project termination or modification requests will require approval of the Director, ITG.

7. Document Project Records

All actions and decisions concerning the project will be documented. Security of data files will be ensured.

C. Analysis Phase and Project Closure Strategy

1. Analyze Study Results

The analysis phase begins when all data has been collected and may vary depending on the project type.

2. Develop Project Closure Strategy

CPM is responsible for developing the project closure strategy. The project closure strategy is dependant on the facts, circumstances, and when necessary, the analysis of the project.

A project strategy could include but not be limited to one or a combination of the following:

- Continue the project, which would require monitoring by the team.
- Discontinue the project
- Make the project part of the annual work plan as regularly occurring casework. As a general rule regularly occurring casework would not need monitoring.

3. Draft Report

A final report will be submitted when substantially all work on the project has been concluded, but no later than six months after the project completion date including extensions. Under certain circumstances an interim report may be necessary. Any specific taxpayer information will not be included in the report. Law enforcement criteria and examination tolerances will not be included in any report that will be made public.

The report should address:

- The project's objectives;
- Data gathering methods;
- Data analysis;
- Limitations and deviations ;
- Findings;
- Impact on resources;
- Project critique (what worked, what didn't work); and
- Recommendations.

Recommendations may call for a range of activities such as:

- Issuance of guidance;
- Educational letters;

- Re-examinations in future years;
- Follow-up studies to measure increases in compliance;
- Proposed legislative changes;
- Additional training;
- Convert the project to regular casework; or
- No future actions if issues were not found.

4. Submit Final Report to ITG Director and others when appropriate,