

Department of the Treasury



*Treasury Inspector General  
for Tax Administration*

**OFFICE OF AUDIT  
FISCAL YEAR 2002  
AUDIT PLAN**

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## ***Fiscal Year 2002 Annual Plan***

### ***EXECUTIVE OVERVIEW***

Restructuring the organization, modernizing its computer systems, and improving customer service are three of the more significant challenges for the Internal Revenue Service (IRS). The IRS Restructuring and Reform Act of 1998<sup>1</sup> (RRA 98) required the IRS Commissioner to reorganize the IRS around groups of taxpayers with similar needs and to place a greater emphasis on serving taxpayers and meeting their needs. The IRS' modernization process also includes developing new technology to replace deficient and obsolete systems. Throughout this long-term modernization effort, the IRS must continue implementing tax law changes, collecting approximately \$2.1 trillion in tax revenue, and improving customer service.

The IRS has made progress in its restructuring efforts. For example, as of October 1, 2000, the IRS substantially completed the stand up or implementation of the reorganization of its four customer-focused business units. In addition, considerable emphasis has been given to protecting taxpayers' rights. As a result, the IRS is either in full compliance with or is taking action to become compliant with the specific taxpayer rights provisions that the Office of the Treasury Inspector General for Tax Administration (TIGTA) is required to report on annually. The IRS' next reorganization phase must concentrate on addressing management and operational issues surrounding its restructuring. Aspects of the reorganization that should be addressed include revised management information systems designed to support the new organizational structure; taxpayer access to walk-in and toll-free telephone services; accurate responses to taxpayers' inquiries; the ability to hire, train, and retain a qualified workforce; and the decline in enforcement rates.

The transition to the new operating divisions and the implementation of the required process changes have impacted some enforcement actions. The overall decrease in enforcement actions has been primarily attributed to a long-term decline in enforcement staffing, redirection of the staff to customer service functions during the filing season<sup>2</sup>, and employee concerns over the mandatory termination provision in Section 1203 of the RRA 98. Moreover, current information systems have not been upgraded to provide IRS executives the management information they need to make decisions in a new operating environment that focuses on serving distinct taxpayer segments. For example, all IRS management information systems will not fully reflect the new organizational structure in the Small Business/Self-Employed

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685.

<sup>2</sup> The filing season is the period from January through mid-April of each calendar year during which most taxpayers file their income tax returns.

Division until at least early in 2002. Executives rely on the information generated from these systems to plan, execute, and evaluate programs. Until this realignment of management information is achieved, executives will not have all the data they need to effectively manage resources and evaluate whether taxpayers are receiving the best service possible.

Within the last two years, the IRS has developed a Strategic Plan and provided budget justifications that include the Annual Performance Plans. Collectively, these documents satisfy major requirements of the Government Performance and Results Act of 1993<sup>3</sup> (GPRA) by identifying the IRS' mission, strategic objectives, goals, and strategies. The documents also describe the IRS' priorities for the next six years and the key performance indicators (measures) used in assessing achievement of those goals.

The Office of Audit's Fiscal Year (FY) 2002 Annual Audit Plan presents an audit program that will assess areas related to IRS' modernization efforts, the major challenges facing the IRS, and its strategic goals and objectives. In addition, the Office of Audit will perform audits required by statute, as well as address areas of concern to the Congress, the IRS Oversight Board, and other interested parties. More information on specific IRS programs and the Office of Audit's FY2002 coverage of those programs are included in the section Office of Audit's Program Areas.

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<sup>3</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

## ***THE MISSION AND THE ORGANIZATION***

The RRA 98 established the TIGTA with the powers and authorities given to other Inspector General organizations under the Inspector General Act, with its focus devoted entirely to the IRS. This authority charges the TIGTA with conducting independent and objective audits, evaluations, and investigations of the IRS' programs and activities. The TIGTA is organizationally placed within the Department of the Treasury, but is independent of the Department and all other offices and agencies within the Department. The TIGTA is committed to providing timely, useful, and reliable information and advice to IRS officials, including its Chief Counsel and the IRS Oversight Board, and to the Congress and the public.

TIGTA's Office of Audit promotes the sound administration of the nation's tax laws through comprehensive, independent performance and financial reviews of the IRS' programs, operations, and activities to: assess efficiency, economy, effectiveness, and program accomplishments; ensure compliance with applicable laws and regulations; and detect and deter fraud, waste, and abuse.

Under the leadership of the Inspector General, the Deputy Inspector General for Audit (DIGA) is responsible for the Office of Audit. Four Assistant Inspectors General for Audit (AIGA), who are aligned around the IRS' core business activities, report to the DIGA. The four AIGAs cover 1) Information Systems Programs; 2) Headquarters Operations and Exempt Organizations Programs; 3) Wage and Investment Income Programs; and 4) Small Business and Corporate Programs. In addition, a Director, Modernization reports directly to the DIGA and was created to monitor the implementation or "standing up" of the new IRS organization. Please see Appendix I for the Office of Audit organization chart.

The AIGAs advise the DIGA on the major risks facing the IRS in their respective program areas, and annually propose a national audit plan based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses. In addition, to keep apprised of operating conditions and opportunities to provide consultant and advisory services on areas of potential management improvement, the AIGAs maintain liaison and working contact with applicable IRS executives, the Treasury and General Accounting Office (GAO) officials, and congressional staffs.

## ***AUDIT PROGRAM FOR FISCAL YEAR 2002***

The annual audit plan communicates our audit priorities to the IRS, the Congress, and other interested parties. Many of the activities described in the Audit Plan address the fundamental goals related to the IRS' mission to administer its programs effectively and efficiently.

The Office of Audit's FY 2002 Audit Plan is organized around the IRS' core business activities. Emphasis is placed on the statutory coverage imposed by the RRA 98 and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial statement audits. The restructured organization of each IRS business unit, as well as the IRS' new and revamped computer systems, will be closely monitored to ensure that important programs are properly implemented and customer service is improved.

The balance of the Office of Audit's body of work will focus on major management issues facing the IRS and the IRS' progress in achieving its strategic goals, as well as areas of concern to the Congress and the IRS Commissioner. The Office of Audit's identification of the major management challenges facing the IRS in FY 2002 is listed in Appendix II. The IRS' goals and strategies for attaining those goals are highlighted in Appendix III. For FY 2002, TIGTA's planned audits have been related to the management challenges and the IRS' major strategies. Appendices IV and V illustrate the challenges and strategies that TIGTA audits will address in FY 2002.

The Office of Audit's discretionary audit coverage was identified through a comprehensive, high-level risk assessment process, which was designed to prioritize workload by focusing on the areas of greatest risk to the IRS. The risk assessment process is used to integrate professional judgment into assessing the probability that adverse conditions or events may occur. This process applies risk factors to key auditable areas in the IRS, and documents and summarizes results to aid the Office of Audit management in selecting areas for coverage. Risk factors are the criteria used to identify the relative significance of, and the likelihood that, conditions or events may occur that adversely affect the organization. Some of the risk factors used in evaluating the risks associated with the IRS' auditable areas are: stakeholder concerns, impact of new programs and tax legislation, reliability of internal control systems, and past audit reviews.

In choosing areas for coverage, the Office of Audit management primarily focuses on the areas with the highest risk. Input from TIGTA executives and top-level IRS management, current workload, and other factors are considered before a final decision is made.

## **OFFICE OF AUDIT'S PROGRAM AREAS**

The following narratives briefly describe the state of some of the IRS' major programs and the Office of Audit's FY 2002 Audit Program that will further assess those programs.

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### **Information Systems Programs**

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The IRS' modernization concept and plans are heavily dependent on new technology to update its computer systems. Approximately \$500 million has been spent on the current systems modernization initiative since it began about 2 years ago. While significant progress has been made thus far, most of the ongoing systems modernization projects have taken longer and cost more than originally planned. Some contributing factors are: the IRS is in a steep learning curve in its systems modernization effort, and the roles and responsibilities of the IRS and the PRIME<sup>4</sup> contractor were inadequately defined during the early phases of the modernization.

Because of these delays, the intended benefits to taxpayers are just beginning to be realized. For example, the IRS plans to dramatically improve the volume and routing of telephone calls received on its toll-free telephone service and to provide Internet access to determine refund and filing status. These benefits were originally scheduled to be implemented for the 2001 filing season. However, they will not be fully implemented until the 2002 filing season or later. To meet the revised implementation dates, the IRS must define and complete a substantial amount of critical design requirements and development work.

To further enhance IRS operations, TIGTA has recommended to IRS management the need for all systems development activities to be consolidated and monitored under the Chief Information Officer (CIO). The TIGTA believes that managing systems development initiatives outside the CIO's organization increases the risk of inconsistent and ineffective project management processes and fragmented systems modernization initiatives, which could lead to additional delays, cost overruns, and rework.

Additionally, computer security will continue to be a risk since IRS computers contain significant amounts of valuable and sensitive information. There are risks from within (e.g., unethical employees who have improperly viewed and manipulated

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<sup>4</sup> The Prime Systems Integration Services Contractor (PRIME) is the contract under which Computer Sciences Corporation is responsible for designing new systems to meet IRS business needs, developing these systems, integrating them into the IRS, and ultimately transferring operation of these systems to the IRS.



taxpayer records) as well as external threats (e.g., potential incidents such as the theft of taxpayer account information, manipulation of computer software coding, and defacement of public web pages).

Thus, the IRS will continue to face risks throughout the life of its technology modernization projects, and TIGTA will continue to assess the IRS' efforts at managing those risks. The TIGTA will also review the IRS' computer security efforts that deal with detection and prevention activities. Overall, the FY 2002 work planned in the Information Systems Programs Unit will position the TIGTA to meet the RRA 98 requirement for reporting annually on the adequacy and security of IRS technology. A complete list of the Unit's planned audits and audit objectives is included in Appendix VII.

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## **Headquarters Operations and Exempt Organizations Programs**

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The Office of Audit's Headquarters Operations and Exempt Organizations Programs Unit will perform high-priority audit work related to taxpayers' rights and the RRA 98, the IRS' financial statements, contracts, Agency-Wide Shared Services, implementation of the GPRA, and the Criminal Investigation Program, including uncover activities, money laundering, and abusive trusts. Further work will be conducted in other IRS program areas, including the Tax Exempt Organizations/Government Entities, the Headquarters Operations, the Taxpayer Advocate Office, Appeals, and Counsel.

In the taxpayer rights area, our prior audit work determined that the IRS was fully or substantially compliant with the provisions of the RRA 98 involving seizures and notification requirements for levies. For other provisions, i.e., proper and timely notices for all federal tax liens, timely consideration of innocent spouse relief claims, and full elimination of illegal tax protester designations, the IRS was continuing to take corrective actions to increase compliance. There were, however, some instances of enforcement statistics being used improperly. Also, although Appeals employees complied with legal requirements around Collection due process, customer service could be improved by timely contacting taxpayers and fully explaining the basis for the appeals determinations. In addition, the IRS improperly withheld information on some requests under the Freedom of Information and Privacy Act.

Also, the process changes required to implement certain taxpayer rights provisions of the RRA 98 and the transition to the new operating divisions have adversely impacted the IRS. For example, for the 18 RRA 98 taxpayer rights provisions we reviewed, new procedures in the Internal Revenue Manual took an average of over 9 months to be completed. During the interim, some employees did not have adequate procedures to ensure compliance with the law. Additionally, before implementation, new procedures were not always adequately tested by field personnel to determine the impact on casework processing. These problems

caused confusion and delayed processing. The TIGTA will continue to monitor these and other taxpayer rights issues.

Another priority concern is the IRS' balanced measurement system. The IRS Commissioner has indicated that it will take years to achieve a fully acceptable set of balanced measures that can be used at all levels of the organization. In response to our FY 2000 audit reports, the IRS has taken several steps to address the concerns that were raised. The IRS Commissioner designated the Deputy Commissioner and the Chief Financial Officer as responsible for the macro-level GPRA processes, and the operating unit executives as responsible for implementing the GPRA in their respective areas. The IRS is planning to qualify some data and has made changes to its performance management process to help better define and report on measures. Based on our continuing audit work, TIGTA believes that the IRS can further improve its measures, the data quality of its measures, and its reporting of annual accomplishments.

A complete list of the Unit's planned audits and audit objectives is included in Appendix VIII. Four of the planned audits are in response to the RRA 98 statutory reporting requirements. Another three audits address statutory requirements related to the IRS' financial statements and other financial reports.

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## **Wage and Investment Income Programs**

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The IRS' Wage and Investment Income Operating Division is divided into three primary sections: Customer Assistance, Relationships and Education (CARE), Customer Account Services (CAS), and Compliance, and focuses its efforts on helping taxpayers comply with laws and regulations. The filing season is a key part of its program because it impacts nearly every American taxpayer. For the filing season to be successful, many programs, activities, and resources have to be planned and managed effectively.

A great deal of work is needed to achieve the IRS' primary goal of providing quality customer service as a key to improving tax compliance. The underlying theory of much of the IRS' modernization is that the overall rate of voluntary compliance with the tax laws will increase if the IRS provides the right mix of education, support, and up-front problem solving to taxpayers. Through its modernization efforts, the IRS has embarked on a course to reengineer its business processes and technology to focus on improving service to taxpayers, including quicker return processing and refund issuance. In addition, telephone and Internet technology afford the IRS many opportunities to dramatically improve its customer service. The IRS web site, for example, recorded over 1.5 billion accesses during the 2001 filing season, and the IRS anticipates approximately 2.5 billion accesses in 2002.

Even though the IRS has made strides in its use of technology, factors such as inadequate systems design and planning, plus human capital issues, hinder IRS' efforts to improve customer service. For example, in a review of the toll-free telephone system during the 2001 filing season, TIGTA auditors were unable to talk with an IRS assistor 37 percent of the time. Even when an assistor was reached, the requested service was not received 47 percent of the time (e.g., reviewers were sometimes provided inaccurate or insufficient information, referred to publications or the IRS' Internet site without receiving an answer to the original question, or told an assistor was not available to answer a particular type of question).

In another audit of the 2001 filing season, TIGTA identified a need for the IRS to improve the quality of answers provided to walk-in taxpayers. In a review of the Tax Assistance Centers (i.e., walk-in sites) over a 2-week period, 90 contacts were made with IRS assistors. In 7 of these instances, service was denied to our reviewers (e.g., reviewers were merely provided forms or instructions, or told no one was available to answer their questions). When service was provided, incorrect answers were provided 49 percent of the time, and insufficient answers were provided 24 percent of the time.

Despite the IRS having a successful 2001 filing season – processing over 88 million individual income tax returns – the IRS faces a significant challenge in achieving another of its goals. That goal is to increase electronic filing, culminating in at least 80 percent of all federal tax and information returns being filed electronically by 2007. More than 20 new forms were added to the electronic filing list in 2001, with an additional 38 to be added in 2002. But while approximately 39.6 million (34 percent) of the tax year 2000 returns were filed electronically – a 13 percent increase from last year – the IRS did not achieve its goal of a 19.5 percent increase for this filing season.

The Office of Audit's Wage and Investment Income Programs Unit will continue to assess the IRS' program for assisting and servicing the nearly 90 million taxpayers filing tax returns with only wage and investment income. Audits of the CARE function will evaluate the timeliness and accuracy of the IRS' services to taxpayers, including face-to-face contacts and automated systems provided for taxpayer use. For the CAS function, Office of Audit reviews will center on processing tax returns and payments, answering taxpayers' tax law and account questions over the telephone, and ensuring that taxpayers' accounts are accurately settled. Audits of the Compliance function will address IRS efforts to protect existing revenue from loss or theft, and to ensure taxpayers report and pay the proper amount of tax. In addition, the Compliance Program Unit plans to perform eight statutory audits required by RRA 98. A complete list of the Unit's planned audits and audit objectives is included in Appendix IX.

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## **Small Business and Corporate Programs**

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Many of the concerns involving the filing season of the wage and investment taxpayer also impact taxpayers in the Small Business/Self-Employed (SB/SE) and Large and Mid-Size Business (LMSB) Operating Divisions. These two groups of taxpayers, however, frequently have more unique and complicated tax situations that require more complex dealings with the IRS. While providing improved customer service is a key IRS goal, some of the same factors that hindered achieving the goals of the wage and investment segment also hamper efforts of these divisions. For example, the Electronic Tax Law Administration Program needs improvement in the accuracy of responses to the business taxpayer. In a limited test of the Program during the 2001 filing season, the IRS responded correctly to 45 percent of the SB/SE Division questions TIGTA submitted through the *Digital Daily*. While this surpassed the 16 percent accuracy rate of some commercial web sites offering free tax advice, improvement in the quality of answers is still needed. Analysis of response times showed that the IRS provided responses faster than the commercial web sites, exceeding its goal in 98 percent of the cases.

Because of the lack of withholding or information reporting and the large number of cash transactions in the SB/SE taxpayer segment, and the complexity of tax law in the LMSB segment, the probability for errors and intentional disregard of tax law is high. As a result, the IRS should continually seek opportunities to protect revenue and minimize tax-filing fraud in its programs and operations. Despite extensive IRS programs and efforts to address certain refund schemes, relatively little effort has been made to systematically identify those schemes involving business returns and associated credits. While a few business schemes have been identified, it has generally been through labor intensive manual procedures. The IRS is concerned that fraudulent refund claims may be expanding to include business returns and that scheme perpetrators may be using the Internet or other means to promote and advertise their schemes.

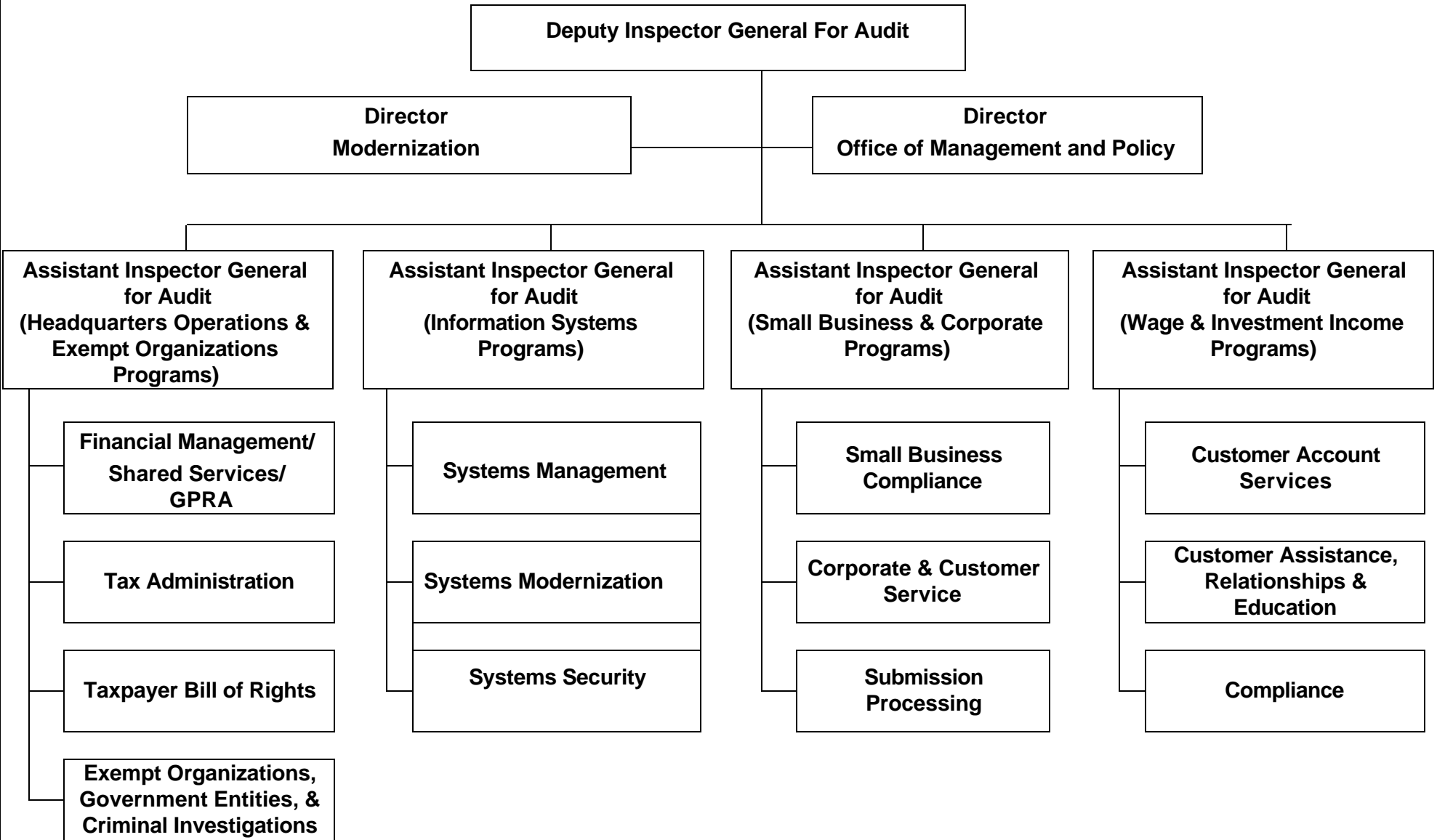
Another area in which the IRS needs to significantly improve its compliance efforts is in the international taxpayer segment. The TIGTA and the General Accounting Office have previously reported internal control and systemic weaknesses in the IRS' administration of its international programs. Improvements are needed in international compliance programs to focus on nonfiling, transfers of assets by United States citizens to foreign trusts, foreign tax credit claims, and foreign-sourced income. Based on recent audit testing, TIGTA reported that the IRS is in no better position to determine taxpayers' compliance levels in reporting foreign-sourced income than it was in 1997.

The Small Business and Corporate Programs Unit will concentrate on assessing the IRS' efforts in keeping self-employed taxpayers, small businesses, and large and mid-size corporations compliant with tax laws and regulations. Overall, the work performed in this Unit will focus on compliance issues, IRS customer service efforts, returns processing issues, and other tax aspects that are unique to the self-employed and small, mid-size and large business taxpayers. A complete list of the Unit's planned audits and audit objectives is included in Appendix X.



**ORGANIZATION CHART**  
*Treasury Inspector General for Tax Administration*  
*Office of Audit*

Appendix I



***MAJOR MANAGEMENT CHALLENGES  
FACING THE INTERNAL REVENUE SERVICE***

The Treasury Inspector General for Tax Administration's Office of Audit believes the major management challenges facing the Internal Revenue Service (IRS) in Fiscal Year 2002 are:

- ❖ Modernization of the Internal Revenue Service.
  - Organizational Restructuring.
  - Technology Modernization.
- ❖ Financial Management.
- ❖ Security of the Internal Revenue Service's Information Systems.
- ❖ Processing Returns and Implementing Tax Law Changes During the Tax Filing Season.
- ❖ Customer Service and Tax Compliance Initiatives.
- ❖ Providing Quality Customer Service Operations.
- ❖ Revenue Protection – Minimizing Tax Filing Fraud.
- ❖ Taxpayer Protection and Rights.
- ❖ Implementation of the Government Performance and Results Act of 1993.
- ❖ Impact of the Global Economy on Tax Administration.

TIGTA's latest annual summary of these issues, including comments on progress the IRS has made toward resolving the challenges or the vulnerabilities that the IRS continues to face in achieving results, may be viewed on the Internet at the following address:

[http://www.treas.gov/tigta/annual\\_audit\\_plans.htm](http://www.treas.gov/tigta/annual_audit_plans.htm).

Two additional challenge areas, i.e., Human Resources and Tax Law Complexity, are also being considered. If added, the issue areas will be developed and posted to the above web site during the first quarter of FY 2002.

**THE INTERNAL REVENUE SERVICE MISSION AND STRATEGIC GOALS AND OBJECTIVES<sup>1</sup>**

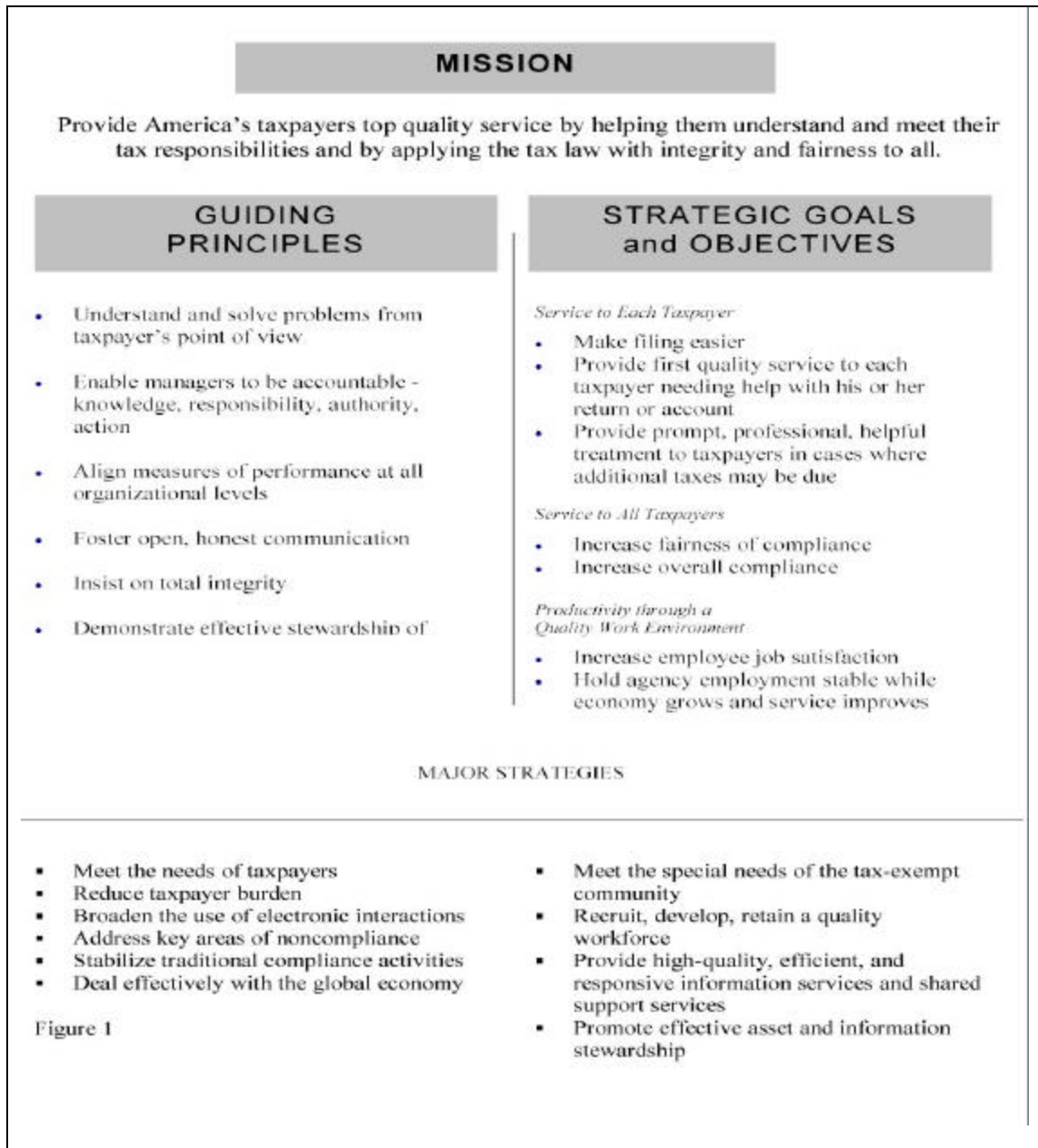


Figure 1

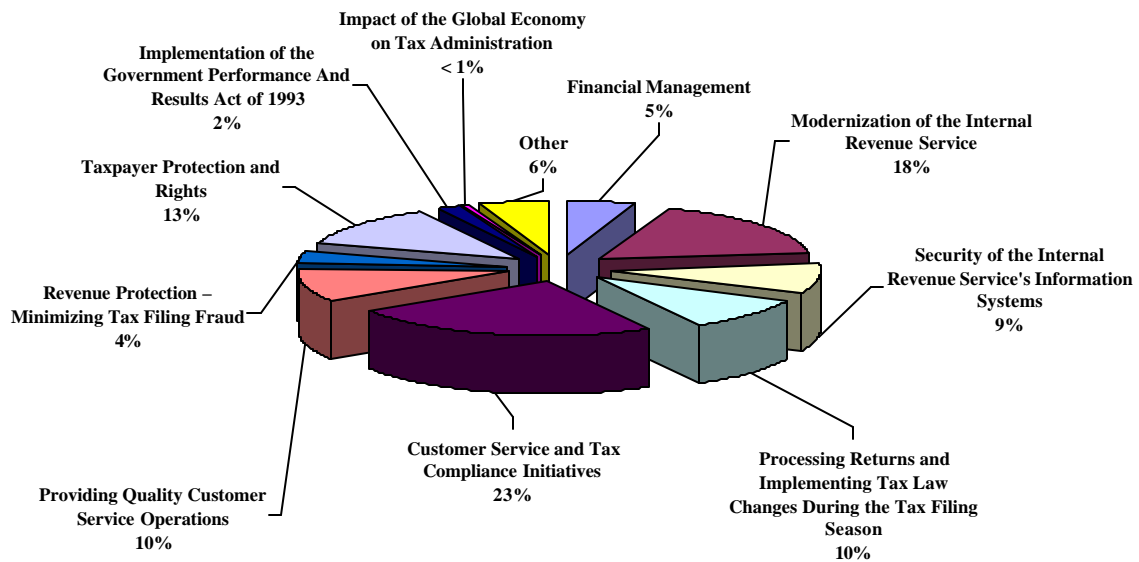
<sup>1</sup> Excerpt from FY 2002 IRS Annual Performance Plan, dated April 9, 2001.

Note: The last bullet of the Guiding Principles is incomplete on the IRS document but relates to the last major strategy: Promote effective asset and information stewardship.



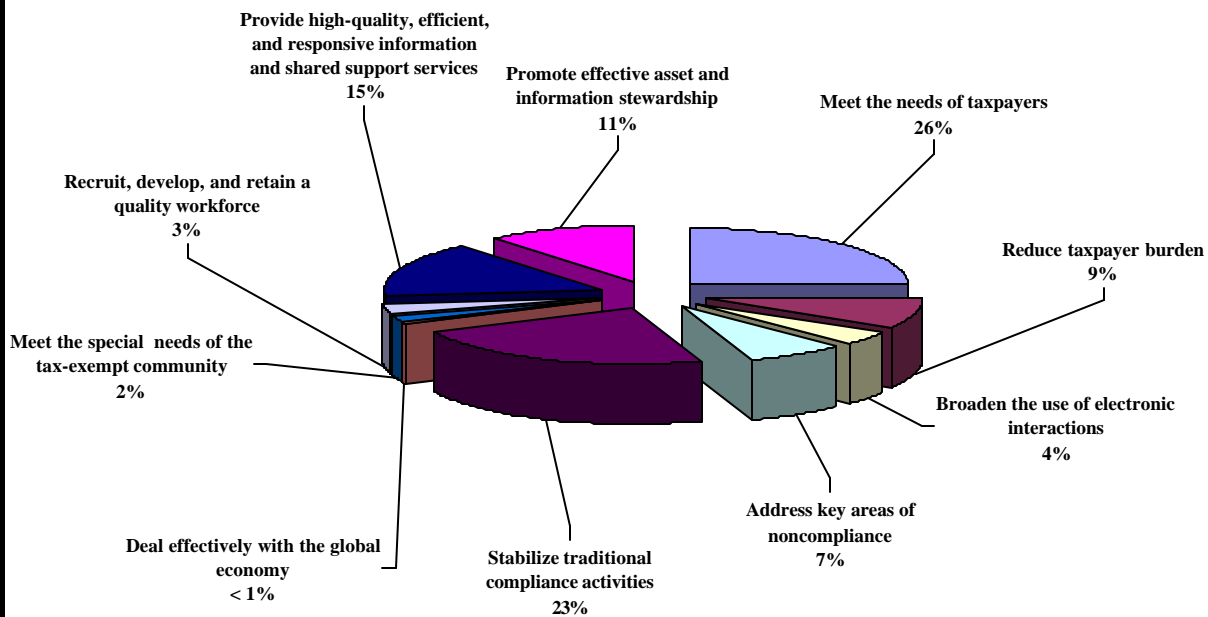
**OFFICE OF AUDIT'S FISCAL YEAR 2002 STAFF DAY ALLOCATION  
BY MAJOR CHALLENGES FACING IRS MANAGEMENT**

**Major Challenges Facing IRS**



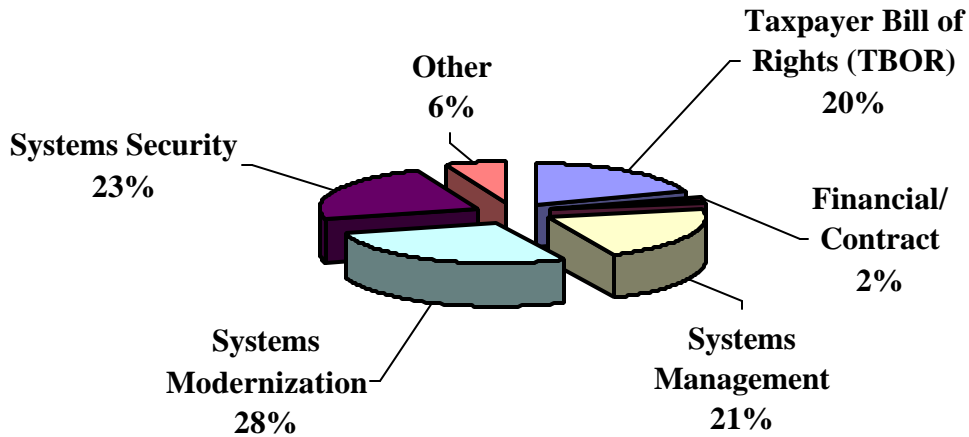
**OFFICE OF AUDIT'S FISCAL YEAR 2002 STAFF DAY ALLOCATION  
BY IRS MAJOR STRATEGIES**

**IRS Strategic Goals**

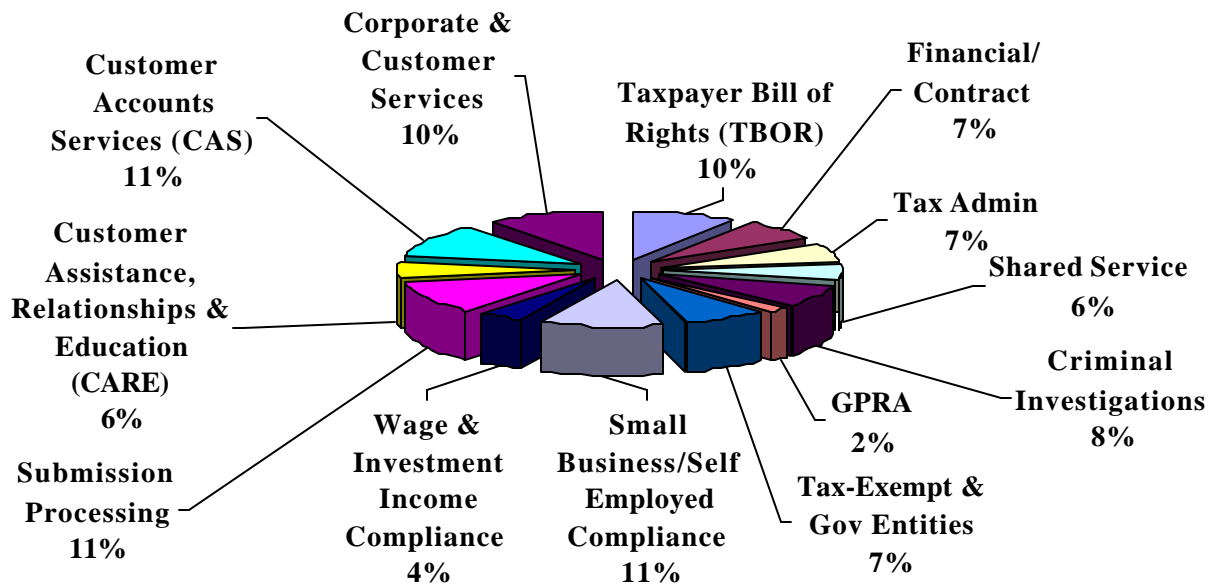


**OFFICE OF AUDIT'S FISCAL YEAR 2002 STAFF DAY ALLOCATION**

**Statutory Audits (30.9%)**



**Discretionary Audits (69.1%)**



***LIST OF PLANNED AUDITS  
INFORMATION SYSTEMS PROGRAMS***

*Within the Information Systems Programs, all reviews are considered statutory because of the Restructuring and Reform Act of 1998 (RRA 98) requirement to report annually on the adequacy and security of the Internal Revenue Service's (IRS) technology. Audits are selected based on a risk-assessment process.*

**Implementation of Common Operating Environment Using Tivoli Software (Statutory Review)**

Audit Objective: Assess the IRS' implementation of Tivoli software including configuration management, software distribution abilities, helpdesk effectiveness, and security.

**Effectiveness of Computerized Controls Over Classified Information (Statutory Review)**

Audit Objective: Through a narrowly focused review, evaluate the effectiveness of controls designed to protect information classified as more than Sensitive But Unclassified.

**Mainframe Operating System Controls Capping Report (Statutory Review)**

Audit Objectives: Evaluate prior audit results, report broader weaknesses, and determine the status of agreed corrective actions.

**Implementation of Operating System Controls on Tier II Consolidated Systems (Statutory Review)**

Audit Objective: Evaluate the operating system and access controls over the consolidated systems.

**Effectiveness of the Internal Revenue Service's Storage Management Activities (Statutory Review)**

Audit Objective: Evaluate storage management practices, and determine whether they support new enterprise-wide shared storage concepts.

**Effectiveness of the Customer Care Organization (Statutory Review)**

Audit Objective: Conduct a performance review of the Customer Care Organization to evaluate the efficiency, effectiveness, and utilization of staff.

**Effectiveness of the Corporate Operations Organization (Statutory Review)**

Audit Objective: Conduct a performance review of the Corporate Operations Organization to evaluate the efficiency, effectiveness, and utilization of staff.

**Management Controls Over the Internal Revenue Service's Configuration Management Practices (Statutory Review)**

Audit Objective: Evaluate the effectiveness and efficiency of the IRS' configuration management program, and follow up on prior configuration management issues in the modernization program and their relationship to existing controls.

**Effectiveness of the Internal Revenue Service's Handling of Surplus/Excessed Computer Equipment (Statutory Review)**

Audit Objective: Through a narrowly focused review, determine the effectiveness of IRS policies for removing sensitive data on surplus/excessed computer equipment.

**Effectiveness of the Employee and Contractor Background Investigation Program (Statutory Review)**

Audit Objectives: In a narrowly focused review, determine whether employee and contractor background investigations are timely requested and completed; and follow up on prior recommendations.

**Management of Local Telephone Service and Commercial Long Distance Costs (Statutory Review)**

Audit Objective: Determine whether the IRS is effectively managing the telecommunications costs related to local telephone service and commercial long distance charges.

**Review of the Telecommunication Asset Tool Implementation (Statutory Review)**

Audit Objective: Determine the effectiveness of the new system in controlling telephone charges.

**Notice Print Consolidation (Statutory Review)**

Audit Objective: Determine whether the PRINT consolidation effort is being effectively planned, controlled, tested, and staffed. *(Carryover from Fiscal Year (FY) 2001)*

**Systems Access Controls - Corporate Systems Modernization/Mirror Image Acquisition Mainframe at the Detroit Computing Center (Statutory Review)**

Audit Objective: Assess the IRS' progress in meeting appropriate security requirements for the Corporate Systems Modernization/Mirror Image Acquisition mainframe at the Detroit Computing Center; and evaluate the controls over system access, operating system changes, and service continuity for this system. *(Carryover from FY 2001)*

**Tier II Consolidation**

Audit Objective: Evaluate the project management process and controls over the IRS' effort to consolidate mid-level systems into the computing centers. *(Carryover from FY 2001)*

**System Maintenance Contracts**

Audit Objective: Determine whether the IRS is paying maintenance on equipment that is no longer in service. *(Carryover from FY 2001)*

**Internal Revenue Service Management of Treasury Communication System Activities**

Audit Objective: Determine whether the IRS is properly fulfilling its responsibilities for managing Treasury Communication System activities. *(Carryover from FY 2001)*

**Deployment of Customer Account Data Engine Release 1 (Statutory Review)**

Audit Objectives: Determine whether the Business Systems Modernization Office (BSMO) and PRIME are 1) following disciplined, repeatable processes to develop and deploy the Customer Account Data Engine project; and 2) adequately managing the costs, schedules, and delivery of products.

**Post-Deployment of Customer Communications 2001 Release (Statutory Review)**

Audit Objectives: Determine whether the BSMO and PRIME are 1) following disciplined, repeatable processes to develop and deploy the Customer Communications (CC) 2001 project; and 2) adequately managing the costs, schedules, and delivery of products.

**Deployment of Customer Communications 2002 Release (Statutory Review)**

Audit Objectives: Determine whether the BSMO and PRIME are 1) following disciplined, repeatable processes to develop and deploy the CC 2002 project; and 2) adequately managing the costs, schedules, and delivery of products.

**Compliance With Capability Maturity Model Requirements (Statutory Review)**

Audit Objective: Determine whether BSMO and PRIME are establishing and following criteria and requirements needed to obtain desired Capability Maturity Model certifications.

**Transition to Support Activities (Statutory Review)**

Audit Objective: Determine whether BSMO has developed and implemented adequate processes and procedures to provide support activities to deployed projects.

**Development of Customer Account Management Project (Statutory Review)**

Audit Objectives: Determine whether the BSMO and PRIME are 1) following disciplined, repeatable processes to develop and deploy the Customer Account Management project; and 2) adequately managing the costs, schedules, and delivery of products.

**Development of Custodial Accounting Project (Statutory Review)**

Audit Objectives: Determine whether the BSMO and PRIME are 1) following disciplined, repeatable processes to develop and deploy the Custodial Accounting Project; and 2) adequately managing the costs, schedules, and delivery of products.

**The Business Systems Modernization Office Monitoring of Project Schedules, Costs, and Deliverables (Statutory Review)**

Audit Objective: Determine how effectively the IRS is monitoring the performance of the modernization contractor in the areas of cost and schedule (earned value) plus delivery.

**Effectiveness of the Internal Revenue Service's Information Technology Investment Account Funding Process (Statutory Review)**

Audit Objective: Determine the effectiveness of the processes used by the BSMO to develop Information Technology Investment Account funding requests.

**The Business Systems Modernization Office Quality Assurance Process (Statutory Review)**

Audit Objective: Determine the roles and effectiveness of the BSMO quality assurance process.

**Development of the Enterprise Data Warehouse Project (Statutory Review)**

Audit Objectives: Determine whether the BSMO and PRIME are 1) following disciplined, repeatable processes to develop and deploy the Enterprise Data Warehouse Project; and 2) adequately managing the costs, schedules, and delivery of products.

**Updates of Enterprise Architecture (Statutory Review)**

Audit Objective: Determine the adequacy and timeliness of updates to the IRS Enterprise Architecture.

**Deployment of e-Services 2002 Release (Statutory Review)**

Audit Objectives: Determine whether the BSMO and PRIME are 1) following disciplined, repeatable processes to develop and deploy the e-Services project; and 2) adequately managing the costs, schedules, and delivery of products.

**Controls Over "Level of Effort" Task Orders (Statutory Review)**

Audit Objective: Determine the effectiveness and efficiency of controls over the development, award, and monitoring of "level of effort" task orders.



**Deployment of Security Technology Infrastructure Release (Statutory Review)**

Audit Objectives: Determine whether the BSMO and PRIME are 1) following disciplined, repeatable processes to develop and deploy the Security Technology Infrastructure Release project; and 2) adequately managing the costs, schedules, and delivery of products.

**Project Compliance With Enterprise Life Cycle Milestone Criteria (Statutory Review)**

Audit Objective: Determine whether new BSMO projects are following Enterprise Life Cycle requirements during the design and development stages.

**Deployment - Customer Communications Project 2001 Release (Statutory Review)**

Audit Objective: Determine whether the IRS delivered the planned capabilities of the Customer Communications Project FY 2001 Release. *(Carryover from FY 2001)*

**Development of the Enterprise Systems Management Project (Statutory Review)**

Audit Objective: Evaluate the IRS' management of the Enterprise Systems Management Project and oversight of the PRIME deliverables for FY 2002 releases. *(Carryover from FY 2001)*

**Assessment of PRIME's Delivery of Goods and Services (Statutory Review)**

Audit Objective: Determine if products and services delivered by the PRIME contractor and its subcontractors meet the IRS' needs and contract requirements. *(Carryover from FY 2001)*

**Intrusion Detection/Incident Response (Statutory Review)**

Audit Objective: Evaluate the implementation of the IRS' intrusion detection/incident response efforts.

**Office of Security (Statutory Review)**

Audit Objective: Assess the overall management of the security program.

**Budgeting for Security (Statutory Review)**

Audit Objective: Determine how funding to correct security weaknesses is identified and monitored in the IRS budget process.

**Security of Data Provided to Federal Agencies and States (Statutory Review)**

Audit Objectives: Determine whether the IRS information provided to other agencies and states is adequately protected, and that IRS is performing required security reviews.

**Capping Report (Statutory Review)**

Audit Objective: Summarize the IRS' overall security posture and respond to the Office of Management and Budget on the Government Information Security Reform Act.

**Presidential Decision Directive 63 (Statutory Review)**

Audit Objective: Evaluate the implementation of cyber and physical controls over critical assets.

**Public Key Infrastructure (Statutory Review)**

Audit Objective: Determine the progress agencies are making in Public Key Infrastructure (PKI), assess risks associated with PKI, and determine whether more appropriate alternatives exist.

**Telecommuting (Statutory Review)**

Audit Objective: Identify any security risks associated with the employee telecommuting program, and assess the IRS' efforts to mitigate those risks.

**External Gateways (Statutory Review)**

Audit Objective: Identify security weaknesses at the IRS' perimeter.

**Network Audits (Automated Scans) (Statutory Review)**

Audit Objective: Identify security weaknesses inside the IRS' perimeter.

**Penetration Assessment (Statutory Review)**

Audit Objective: Identify security weaknesses from a computer hacker's

perspective.

**Adequacy of Virus Controls (Follow Up) (Statutory Review)**

Audit Objective: Determine whether the IRS has taken corrective actions to better prevent and detect the introduction of computer viruses. *(Carryover from FY 2001)*

**Security Over Internal Revenue Service External Gateways (Statutory Review)**

Audit Objective: Determine whether the IRS has effective firewalls, routers, and intrusion detection systems to safeguard information against unauthorized access/use, disclosure, modification, damage, and loss originating from external attacks. *(Carryover from FY 2001)*

**Security At Excise Files Information Retrieval System, ExFIRS Web Site (Statutory Review)**

Audit Objective: Determine whether the web site has effective firewalls, routers, and intrusion detection systems to safeguard information against unauthorized access/use, disclosure, modification, damage, and loss originating from external attacks. *(Carryover from FY 2001)*

**Security At Lexis/Nexis Connection – Detroit Computing Center (Statutory Review)**

Audit Objective: Determine whether the connection has effective controls to safeguard information against unauthorized access/use, disclosure, modification, damage, and loss originating from external attacks. *(Carryover from FY 2001)*

**Adequacy of the Certification and Accreditation Program (Statutory Review)**

Audit Objective: Determine whether the IRS has taken effective corrective actions to reduce the backlog of uncertified sensitive systems. *(Carryover from FY 2001)*

**Security Vulnerabilities – Public Key Infrastructure/e-Commerce Solutions (Statutory Review)**

Audit Objectives: Evaluate the risks associated with the various authentication methods used by the IRS' e-commerce initiatives, and assess the IRS' progress in implementing PKI as an authentication alternative. *(Carryover from FY 2001)*

**Network Penetration Study (Statutory Review)**

Audit Objective: Determine if taxpayer data is adequately protected from disclosure

and alteration from external attacks. *(Carryover from FY 2001)*

**Local Area Network Access Control (Statutory Review)**

Audit Objective: Determine whether operational and logical access controls have been implemented effectively in selected IRS sites. *(Carryover from FY 2001)*

**Detecting Unauthorized Electronic Accesses to Taxpayer Data - Use of Audit Trail (Statutory Review)**

Audit Objective: Determine whether the IRS is using and effectively monitoring system audit trails to ensure taxpayer data is safeguarded from unauthorized disclosure, misuse, or modification. *(Carryover from FY 2001)*

***LIST OF PLANNED AUDITS  
HEADQUARTERS OPERATIONS AND  
EXEMPT ORGANIZATIONS PROGRAMS***

*Four of the planned audits for the Headquarters Operations and Exempt Organizations Programs Unit are in response to the Restructuring and Reform Act of 1998 (RRA 98) statutory reporting requirements. Another three audits address statutory requirements related to the Internal Revenue Service's (IRS) financial statements and other financial reports.*

**Advocate Casework**

Audit Objective: Evaluate the Taxpayer Advocate Service's process for accepting cases.

**Level of Phone Service**

Audit Objective: Determine whether the Taxpayer Advocate Service provided an appropriate level of service to taxpayers using the advocate toll-free lines.

**Advocate's Implementation of Internal Revenue Service Restructuring and Reform Act of 1998 Provisions**

Audit Objective: Determine whether the Taxpayer Advocate Service properly implemented the provisions of the RRA 98.

**Advocate's Resolution of Recurring Problems**

Audit Objective: Determine whether the Taxpayer Advocate Service has an effective process to identify and resolve taxpayers' recurring problems.

**Counsel's Guidance on New Tax Legislation**

Audit Objective: Evaluate Counsel's process of providing guidance on tax legislation through regulations.

**Appeals Delegated Settlement Authority**

Audit Objective: Evaluate Appeals' process to ensure consistent and timely case closures.

**Appeals Quality Measurement System**

Audit Objective: Evaluate whether the Appeals Quality Measurement System provides meaningful data, and determine if it is effectively used.

**Appeals Liens and Levies (Statutory Review)**

Audit Objective: Determine whether the IRS complied with provisions of 26 United States Code (U.S.C.) §§ 6320 and 6330 when taxpayers exercise their right to appeal the filing of a lien or intent to levy.

**Equal Employment Office's Complaints**

Audit Objective: Evaluate the consistency in addressing complaints.

**Strategic Human Resources**

Audit Objective: Evaluate the process for developing the IRS workforce plan.

**Job Application Processing**

Audit Objective: Evaluate the Agency-Wide Shared Services' process for supporting the IRS hiring initiatives.

**Timekeeping**

Audit Objective: Evaluate the controls over exception timekeeping.

**Authority of the Associate Advocates**

Audit Objective: At the request of the National Taxpayer Advocate (NTA), evaluate Advocate employees' use of delegated authorities.

**Purchase Credit Cards**

Audit Objective: Evaluate the process to ensure appropriate use of credit cards.

**Fast Track Mediation Program**

Audit Objective: Assess the process used to implement the Fast Track Mediation pilot program. *(Carryover from FY 2001)*

**Fiscal Year 2002 Freedom of Information Act Denials (Statutory Review)**

Audit Objective: Determine if the IRS improperly withheld information requested by taxpayers in writing, based on Freedom of Information Act (FOIA) exemption (b)(3), in conjunction with Internal Revenue Code (I.R.C.) Section 6103, and/or FOIA exemption (b)(7) or by replying that responsive records did not exist.

**Fiscal Year 2002 Fair Debt Collection Practices Act Violations (Statutory Review)**

Audit Objective: Obtain information on IRS administrative and civil actions resulting from violations of the Fair Debt Collection Practices Act by IRS employees.

**Fiscal Year 2002 Taxpayer Complaints (Statutory Review)**

Audit Objective: Determine the IRS' progress in improving the process for identifying and reporting taxpayer complaints for the Treasury Inspector General for Tax Administration's Semiannual Report to the Congress.

**Accuracy of Contact Information for Submitting a Power of Attorney**

Audit Objectives: Determine the accuracy of information provided to the public for submitting Power of Attorney (POA) forms, and determine if the IRS has a plan to transition the processing of POAs from ten to two service centers in January 2002.

**Use of a Risk Analysis Process in the Large and Mid-Size Business Division**

Audit Objective: Determine if the Large and Mid-Size Business Division's use of a risk analysis process is in compliance with the RRA 98 Section 1204(a) and (b).

**Interest Abatement in Disaster Areas**

Audit Objective: Determine if the IRS is complying with the RRA 98 to abate interest for late filing and paying in presidentially declared disaster areas.

**Processing Power of Attorney Forms**

Audit Objective: Determine if the IRS is providing consistent treatment and is assisting representatives in submitting proper POA forms.

**Limitations on the Failure to Pay Penalty**

Audit Objective: Determine if the IRS has effectively implemented the provisions of I.R.C. Section 6651(h) relative to the failure to pay penalty for individuals who timely file income tax returns and receive an installment agreement.

**Levy on Retirement Funds**

Audit Objective: Determine if the IRS is complying with RRA 98 § 6463 requirements to eliminate the early withdrawal penalty for early distributions of qualified plans or individual retirement accounts made as a result of an IRS levy.

**Release of Liens for Innocent Spouse**

Audit Objective: Determine if the IRS is partially releasing or correcting liens for taxpayers granted innocent spouse relief.

**Unauthorized Disclosure on Lien Payoff**

Audit Objective: Determine if the IRS is complying with the legal requirements in the I.R.C. when it processes requests for lien payoff balances from third parties (title or mortgage companies).

**Providing Information on Proposed Income Tax Changes to Other Tax Agencies**

Audit Objective: Determine if the IRS is protecting taxpayer rights and providing accurate information when disclosing information to other tax agencies.

**Explanation of Refund Disallowance**

Audit Objectives: Determine if the IRS is complying with RRA 98 Sections 3202 and 3505 when disallowing refund claims, and if the IRS is complying with the law when issuing refunds for claims received after the refund statute expiration date.

**Suspension of Interest for Internal Revenue Code Section 6404(g)**

Audit Objective: Determine if the IRS is properly suspending and calculating interest in accordance with I.R.C. Section 6404(g).

**Sequence of Payments**

Audit Objective: Determine if the IRS is applying payments to outstanding balances in the order that would be in the best interests of the taxpayer.



**Implementing Taxpayer Rights Provisions of the Internal Revenue Service Restructuring and Reform Act of 1998 (Follow up)**

Audit Objective: Determine the effectiveness of corrective actions to the Fiscal Year 2001 Consolidated Report of the implementation of taxpayer rights provisions of the RRA 98.

**Release of Wage Levy for Currently Not Collectible Status**

Audit Objective: Determine if the IRS is complying with the I.R.C. when processing wage levies on cases closed as currently not collectible due to economic hardship. (Carryover from FY 2001)

**Financial Review of Low Income Taxpayer Clinics**

Audit Objective: Determine whether the Low Income Taxpayer Clinics complied with the grant terms and conditions and the applicable laws and regulations related to the management of federal funds. (Carryover from FY 2001)

**Defense Contract Audit Agency Contract Oversight (Statutory Review)**

Audit Objective: Provide the IRS with cost and pricing information resulting from audits conducted by the Defense Contract Audit Agency.

**Procurement Fraud Investigations**

Audit Objective: In concert with the Office of Investigations, assess the control implications on allegations of fraud or misconduct, and evaluate contract information and data for fraud indicators and adherence to contract laws and regulations.

**E-Commerce in Procurement**

Audit Objective: Determine if the IRS has appropriately implemented e-commerce, and has established effective controls when procuring goods and services.

**Performance Based Contracts**

Audit Objective: Determine the IRS' progress in using meaningful performance based contracts in the acquisition of services.

**Enterprise License Agreements**

Audit Objective: Determine if the IRS is effectively and efficiently awarding and administering Enterprise License Agreement contracts.

**Organizational Performance Contracts/PRIME**

Audit Objective: Determine whether the IRS is properly managing/administering "level of effort" type task orders.

**Taxable Travel Recorded on the Travel Reimbursement and Accounting System**

Audit Objective: Determine whether the IRS has developed and implemented effective procedures and systems corrections necessary to address taxable travel reporting requirements. (Carryover from FY 2001)

**Implementation of Federal Financial Management Improvement Act of 1996 Remediation Plan During Fiscal Year 2002 (Statutory Review)**

Audit Objective: Evaluate the progress the IRS has made in implementing its Federal Financial Management Improvement Act of 1996 remediation plan, and the adequacy of explanations for missed or revised target dates.

**Attestation of the Internal Revenue Service Fiscal Year 2001 Financial Statement Submission to the Office of National Drug Control Policy (Statutory Review)**

Audit Objective: Perform an attestation review of the IRS' reporting of Fiscal Year 2001 Office of National Drug Control Policy obligations for the purpose of expressing a conclusion on the reliability of the assertions made in the detailed accounting submissions.

**Criminal Investigation Financial Review of Closed Undercover Operations**

Audit Objective: Determine whether the financial records and statements fairly present the results of the operation.

**Implementation of the Federal Activities Inventory Reform Act of 1998**

Audit Objective: Determine if the IRS is effectively implementing the Federal Activities Inventory Reform Act of 1998 and properly identifying activities that are subject to outsourcing.

**Unemployment Trust Fund**

Audit Objective: Determine if the IRS has established effective processes to identify administrative costs related to the Unemployment Trust Funds.

**Implementation of Managerial Cost Accounting**

Audit Objective: Determine if the IRS is properly implementing a managerial cost accounting system.

**Conversion to Electronic Payments**

Audit Objective: Evaluate the IRS' efforts to increase electronic payments to vendors, and ensure that proper controls are in place to accurately and timely process electronic tax payments.

**Health and Safety Program**

Audit Objective: Determine whether the IRS has effective plans and programs to reduce illness and injury in the workplace.

**Management and Delivery of Support Services**

Audit Objective: Determine the efficiency and effectiveness of delivery of support services to IRS organizational units and employees.

**Implementation of the Human Resources Connect System**

Audit Objective: Determine if the IRS has formulated plans to ensure an effective and efficient integration of the Human Resources Connect System.

**Review of the Internal Revenue Service's Government Performance and Results Act of 1993 Performance Measures**

Audit Objective: Determine if the performance measures in the IRS' Government Performance and Results Act of 1993 (GPRA) submissions allow the IRS to adequately assess the success of its operations. (Carryover from FY 2001)

**The Internal Revenue Service's Fiscal Year 2001 Annual Program Performance Report Process**

Audit Objective: Evaluate the process used by the IRS to provide accurate and relevant performance information in support of the Department of the Treasury's

Annual Program Performance Report.

**The Internal Revenue Service's Fiscal Year 2003 Annual Performance Plan**

Audit Objective: Evaluate the usefulness and relevance of the Annual Performance Plan, and ensure that the plan meets GPRA requirements.

**Employment Tax**

Audit Objective: Evaluate the effectiveness of the Criminal Investigation (CI) function's efforts to assist other operating divisions in coordinating casework and developing methods to identify and investigate significant cases in the employment tax area.

**Nonfiler Program**

Audit Objective: Evaluate the CI function's efforts to assist other IRS operating divisions in the development and implementation of a National Nonfiler Strategy.

**Abusive Trusts Strategy**

Audit Objective: Evaluate the effectiveness of the CI function's efforts to develop a strategy to address abusive trusts.

**Use of Informants**

Audit Objective: Determine the effectiveness of the CI function's efforts to monitor and control confidential informants.

**Fraud Referral Program**

Audit Objective: Evaluate the CI function's initiatives to increase fraud referrals from the other operating divisions.

**Fraud Detection Centers**

Audit Objective: Evaluate the effectiveness of the Fraud Detection Centers to identify refund crimes, stop the theft of monies resulting from false and fictitious return filings, and provide investigative support to the CI function's field offices.

**Lead Development Centers**

Audit Objective: Evaluate the effectiveness of the Lead Development Centers in controlling leads, supporting the CI Compliance Strategy, and identifying trends.

**Review of the Effectiveness of the Criminal Investigation Function's Money Laundering Act**

Audit Objective: Evaluate the effectiveness of the CI function's efforts to deliver quality money laundering investigations. *(Carryover from FY 2001)*

**Review of the Criminal Investigation Function's Undercover Activities**

Audit Objective: Evaluate the appropriateness of confidential expenditures relating to selected CI function's undercover operations. *(Carryover from FY 2001)*

**Merit Closures**

Audit Objective: Evaluate the effectiveness of the Tax Exempt/Government Entities (TE/GE) Merit Closure process.

**Tax-Exempt Bonds**

Audit Objective: Assess the TE/GE's ability to meet its defined responsibilities relating to delivering the tax-exempt bond program.

**Performance Measures**

Audit Objective: Determine if the TE/GE properly identified appropriate performance measures and developed a process to capture related data.

**Electronic Determination System**

Audit Objective: Determine if the TE/GE has implemented an effective strategy to redesign the Electronic Determination System to meet its program needs.

**Human Capital Recruitment Plan**

Audit Objective: Evaluate the TE/GE's efforts to effectively recruit a qualified workforce.

**The Tax Exempt/Government Entities Statute Controls**

Audit Objective: Determine if the TE/GE has developed an effective process to ensure statute of limitations are properly monitored.

**The Employee Plans' Annual Examination Planning Process**

Audit Objective: Determine if the TE/GE Employee Plans planning process

addressed the most significant noncompliance areas.

**The Exempt Organizations' Classification of Returns for Examination**

Audit Objective: Evaluate the Exempt Organizations' efforts to properly classify returns for examination.

**The Employee Plans' Classification of Returns for Examination**

Audit Objective: Evaluate the Employee Plans' efforts to properly classify returns for examination.

**The Tax Exempt/Government Entities Division's Efforts to Modernize Three Government Entities**

Audit Objective: Evaluate whether the TE/GE Division is properly and effectively managing its modernization initiatives to improve service to its customers.  
(*Carryover from FY 2001*)

**Federal, State, And Local Tax Debts**

Audit Objective: Determine whether the Federal, State and Local Government and Indian Tribal Government organizations have an effective process to monitor customer compliance with the federal tax requirements. (*Carryover from FY 2001*)

**The Criminal Investigation Function's Lead Development Center**

Audit Objective: Evaluate the feasibility of accelerating the nationwide implementation of the Lead Development Center. (*Carryover from FY 2001*)

***LIST OF PLANNED AUDITS  
WAGE AND INVESTMENT INCOME PROGRAMS***

*Eight of the planned audits for the Wage and Investment Income Programs Unit are in response to the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98) statutory reporting requirements. One job is coded Statutory in the event that legislation is passed requiring the Treasury Inspector General for Tax Administration (TIGTA) to conduct monthly audits of the IRS walk-in activities.*

**Disclosure of Collection Activities With Respect to Joint Returns (Statutory Review)**

Audit Objective: Determine whether the IRS is complying with the provisions of the Taxpayer Bill of Rights 2 and 26 United States Code (U.S.C.) § 6103(e)(8).

**Restrictions on the Use of Enforcement Statistics (Statutory Review)**

Audit Objective: Determine if the IRS is complying with restrictions on the use of enforcement statistics to evaluate employees.

**Seizures (Statutory Review)**

Audit Objective: Determine if seizures conducted by the IRS are in compliance with 26 U.S.C. § 6330 through § 6344 (1986) and its own internal guidelines.

**Restrictions on Directly Contacting Taxpayers (Statutory Review)**

Audit Objective: Determine if the IRS is in compliance with 26 U.S.C. § 7521(b)(2) and (c) regarding directly contacting taxpayers.

**Lien Due Process Procedures (Statutory Review)**

Audit Objective: Determine if Federal Tax Liens issued by the IRS comply with legal guidelines set forth in 26 U.S.C. § 6320 (1986) and related internal guidelines.

**Review of Levy Process Procedures (Statutory Review)**

Audit Objective: Determine whether levies issued by the IRS comply with legal guidelines set forth in 26 U.S.C. § 6330 (1986) and internal guidelines set forth in the IRS' Internal Revenue Manual.

**Assessment Statute Extensions (Statutory Review)**

Audit Objective: Determine if the IRS is complying with legal and internal guidelines when requesting and processing assessment statute extensions.

**Taxpayer Designations - Illegal Tax Protester and Nonfiler Designation (Statutory Review)**

Audit Objective: Determine if the IRS is in compliance with RRA 98 § 3707 and its own guidelines to not designate taxpayers as Illegal Tax Protesters or any similar designation.

**Identifying and Resolving Underwithholding by Wage and Investment Taxpayers**

Audit Objective: Determine whether the IRS has an effective process for identifying and resolving instances of underwithholding by wage and investment taxpayers.

**Identifying and Resolving Instances of Unreported Income by Wage and Investment Taxpayers**

Audit Objective: Determine whether the IRS has an effective process of identifying and resolving instances of unreported income by wage and investment taxpayers.

**Selecting Wage and Investment Tax Returns for Examination**

Audit Objective: Determine whether the IRS has an effective process for selecting wage and investment taxpayers for audit.

**Identifying and Resolving Instances of Nonfiling by Wage and Investment Taxpayers**

Audit Objective: Determine whether the IRS has an effective process for identifying and resolving instances of nonfiling by wage and investment taxpayers.

**Level of Voluntary Compliance of Wage and Investment Taxpayers**

Audit Objective: Determine whether the IRS has an effective process for determining the level of compliance of wage and investment taxpayers.



**Economic Growth and Tax Relief Reconciliation Act of 2001 - Immediate Tax Relief Post-Delivery Impact**

Audit Objective: Determine whether Wage and Investment Income (W&I) Customer Account Services programs were adversely impacted by the mail-out of Economic Growth and Tax Relief Reconciliation Act of 2001 advance refunds.

**Tax Rate Reduction Credit**

Audit Objective: Determine whether the IRS' processing of Tax Year (TY) 2001 tax returns correctly computes the Tax Rate Reduction Credit.

**2002 Filing Season Readiness**

Audit Objective: Determine whether the IRS addressed significant issues expected to impact individual returns during the 2002 filing season.

**2002 Filing Season Implementation**

Audit Objective: Determine if the IRS timely and accurately processes individual tax returns.

**2002 Filing Season Settlement/Program Completion Date**

Audit Objectives: Determine if taxpayer accounts for the 2002 filing season are properly posted, and the IRS meets the program completion date.

**Third-Party Authorization (Checkbox) Initiative**

Audit Objective: Determine whether the Third-Party Initiative expedited timely and accurate resolution of W&I income taxpayers' account and notice inquiries.

**Secondary Social Security Numbers**

Audit Objective: Assess the IRS' efforts to address secondary Social Security Number errors affecting timely and accurate resolution of W&I taxpayers' accounts.

**Deposit Accuracy**

Audit Objective: Determine whether the IRS accurately and timely processes payments received with individual income tax returns.

**Changing the Mission of Selected Submission Processing Centers**

Audit Objective: Assess the IRS' efforts to place the staff displaced at the Brookhaven and Memphis Service Centers when they no longer process paper returns.

**Balancing Wage and Investment Income Staff and Programs**

Audit Objective: Determine whether the IRS' placement of excess W&I pipeline employees resulted in optimal use of employee resources.

**Toll-Free Level of Service and Quality**

Audit Objective: Determine whether the IRS toll-free Customer Service provides accurate and timely assistance to W&I taxpayers.

**Telephone Routing Interactive System**

Audit Objective: Determine whether enhancements to the Telephone Routing Interactive System afforded taxpayers more timely customer service when contacting the IRS about the status of their refund.

**Oral Testimony Adjustments**

Audit Objective: Determine whether IRS quality assurance procedures adequately protect taxpayer accounts from unauthorized changes.

**Notice Review**

Audit Objective: Determine whether the IRS has an effective process to identify and correct erroneous individual taxpayer notices.

**Amended Returns Program**

Audit Objective: Determine whether the Amended Returns Program provides consistent, quality (timely and accurate) service to W&I taxpayers.

**Customer Accounts Correspondence**

Audit Objective: Determine whether the IRS inventory control processes adequately ensure that requests are timely and properly processed.

**Delay of the Enhanced Remittance Transaction Research System**

Audit Objective: Determine whether the delay of the Enhanced Remittance Transaction Research System impacts the quality of customer service to W&I taxpayers.

**Customer Service Representative Toll-Free Agent Groups**

Audit Objective: Determine whether call routing to specialized agent groups impacts W&I taxpayers.

**Tax Law Information in Taxpayer Assistance Centers (Multiple Audits) (Statutory Review<sup>1</sup>)**

Audit Objective: Determine whether taxpayers receive correct answers to their questions when they visit taxpayer assistance centers.

**Measuring the Effectiveness of Internal Revenue Service Written Correspondence on Taxpayer Behavior**

Audit Objective: Determine whether redesigned notices are helping taxpayers change their behavior.

**Accuracy of Wage and Investment Income Written Correspondence (Follow-up)**

Audit Objective: Determine whether taxpayers receive accurate notices.

**Tax Forms and Publications Changes from the 2001 Tax Year**

Audit Objective: Determine whether paper and electronic tax forms and publications that reflect the TY 2001 tax law changes will be available to taxpayers.

**Outreach and Marketing**

Audit Objective: Determine if implementation of the IRS' W&I outreach and marketing program is progressing in a manner that optimizes development and delivery of key tax related educational products and services needed by taxpayers.

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<sup>1</sup> This job is coded Statutory in the event that legislation is passed requiring the Treasury Inspector General for Tax Administration (TIGTA) to conduct monthly audits of the IRS walk-in activities.

**Internal Revenue Service's Reject Error Code Explanations for E-Filed Individual Income Tax Returns**

Audit Objective: Determine whether taxpayers receive adequate explanations when their electronically filed tax returns are rejected.

**Integrated Filing and Payment by Credit Card**

Audit Objective: Determine whether credit card payments are properly applied to taxpayer accounts.

**Refunds on Unsigned, e-Filed Returns**

Audit Objective: Determine whether taxpayers receive refunds if they do not sign their electronically filed returns.

**Oversight of the e-File Application Process**

Audit Objective: Determine whether effective controls are in place to determine who should be allowed to be an electronic return originator.

**The Annual Electronic Return Originators Certification Process**

Audit Objective: Determine whether effective controls are in place to ensure annual Electronic Return Originators certifications are completed.

**Media Website - Tax Law Questions Received**

Audit Objective: Determine whether individual taxpayers who submit questions through the IRS' internet web site receive accurate and timely answers.

**Innocent Spouse (Follow-up)**

Audit Objective: Determine whether effective controls are in place to ensure taxpayers correctly file innocent spouse claims.

**Protection of Assets Versus One-Stop Service**

Audit Objective: Determine whether effective controls are in place to ensure Customer Assistance, Relationships and Education representatives help taxpayers without sacrificing privacy and security.

**Self-Select Personal Identification Number Rejects**

Audit Objective: Determine whether effective controls are in place to allow taxpayers to correctly use the self-select pin option when filing their tax returns electronically.  
*(Carryover from FY 2001)*

**Remote Examination Toll-Free Telephone System**

Audit Objective: Determine whether the IRS' Remote Examination Toll-Free Telephone Program provides fast and responsive assistance to taxpayers being audited. *(Carryover from FY 2001)*

***LIST OF PLANNED AUDITS  
SMALL BUSINESS AND CORPORATE PROGRAMS***

*All Small Business and Corporate Programs' reviews are discretionary audits.*

**Examination Compliance Information Projects**

Audit Objective: Determine whether controls used in the Compliance Improvement Process help protect the rights of taxpayers when their accounts are selected for examination.

**Centralization of the Offer in Compromise Program**

Audit Objective: Determine whether the new centralized Offer in Compromise process meets the Internal Revenue Service (IRS) goal of processing offers quickly and effectively.

**Collection Case Selection and Assignment Process**

Audit Objective: Determine whether the new collection case assignment process meets the IRS goal of assigning the highest priority work quickly to revenue officers.

**Closing Actions on Bankruptcy Cases**

Audit Objective: Determine whether the Government's interest is protected when taxpayers are dismissed from bankruptcy activities.

**Electronic Return Originators Program**

Audit Objectives: Determine whether the Examination function 1) uses the Electronic Return Originators Program effectively to assist return preparers, and 2) conducts compliance checks on the program when appropriate.

**Nonfiler Program for Taxpayers Who Should File Schedule C, Profit or Loss from Business**

Audit Objectives: Determine whether the IRS is meeting its goal of 1) identifying self-employed taxpayers that do not file their income tax returns, and 2) bringing them into compliance.

**Examination Productivity**

Audit Objective: Determine the effectiveness of IRS actions to improve productivity in the Examination process.

**Examination Function Activities in the Nonfiler Strategy**

Audit Objective: Determine whether the Examination function is effectively examining nonfiler cases to help the IRS meet its nonfiler strategy.

**Examination Quality Measurement System**

Audit Objective: Determine whether the Examination Quality Measurement System meets the IRS goals of accurately measuring and improving the quality of examinations.

**Trust Fund Compliance Strategy**

Audit Objective: Determine whether the Collection Field function effectively uses, when appropriate, the Trust Fund Compliance procedures.

**Collection Reengineering**

Audit Objective: Provide consulting services to IRS Collection projects.

**Examination Reengineering**

Audit Objective: Provide consulting services to IRS Examination projects.

**Nonfiling of Federal Tax Liens**

Audit Objective: Determine whether Collection function policies on filing federal tax liens help the IRS achieve its goal of protecting the Government's interest.  
(Carryover from FY 2001)

**Offer in Compromise Case Closures**

Audit Objective: Determine the adequacy of Offer in Compromise closing procedures to ensure proper action is taken on accounts when taxpayers' offers are not accepted. (Carryover from FY 2001)

**Review of Remittance Processing Controls**

Audit Objective: Determine whether the IRS met its goal of effectively processing

remittances timely to prevent the loss, theft, or embezzlement of taxpayer payments.



**Review of the National Nonfiler Strategy**

Audit Objective: Determine whether the National Nonfiler Strategy for Fiscal Years 2001 through 2003 will help the IRS reach its goal of bringing nonfilers into the tax system and keeping them there. *(Carryover from FY 2001)*

**Management of Human Capital in Small Business/Self-Employed Division**

Audit Objective: Determine whether the Small Business/Self-Employed Division's strategy to retain, recruit, and train employees is sufficient to help avoid the risk of future staffing shortages and skill gaps in critical areas.

**Examination Coverage of Officer Compensation Issues on Forms 1120S, United States Income Tax Return for an S Corporation**

Audit Objective: Determine if the IRS is effectively identifying noncompliance in S Corporation officer compensation. *(Carryover from FY 2001)*

**Review of Employment Tax Form 941 Nonfilers**

Audit Objective: Evaluate the effectiveness of Collection Field function actions to bring employment tax nonfilers into compliance.

**Partner's Share of Income, Credits, Deductions, etc., Schedule K-1, Matching**

Audit Objective: Evaluate the accuracy, timeliness and effectiveness of Partner's Share of Income, Credits, Deductions, etc., Schedule K-1, transcription and the impact of filing extensions on the IRS' ability to match data.

**Matching of Partner's Share of Income, Credits, Deductions, etc., Schedule K-1, "Other Income"**

Audit Objective: Evaluate the potential cost/benefits of such a program.

**Business Filing Requirements - Handling Nonfiler Issues**

Audit Objective: Determine the accuracy of filing requirements on the Business Master File (BMF) and its impact on business nonfiler programs.

**Frivolous Filers – Employer's Quarterly Federal Tax Return, Form 941, Refunds**

Audit Objective: Determine the best methods available to identify fraudulent returns

for employers that claim no tax is due.

**Significant Discrepancies on Employer's Quarterly Federal Tax Returns, Forms 941, versus Wage and Tax Statements, Forms W-2 (Follow Up)**

Audit Objective: Determine whether corrective actions were effectively taken on issues reported in the final audit report, *Opportunities Exist to Identify Unreported Taxes from Employer's Quarterly Federal Tax Returns*, dated September 15, 2000.

**Improper Assessment of Penalties for Misclassified Employees**

Audit Objective: Determine if the IRS is achieving its goal of applying penalties in a fair, consistent and comprehensive manner when dealing with businesses with misclassified employees.

**Voluntary Compliance Agreements**

Audit Objective: Evaluate the IRS' efforts to use Voluntary Compliance Agreements as a tool to increase compliance among small business taxpayers.

**Business Information Returns**

Audit Objective: Identify opportunities for the IRS to utilize Business Information Returns in tax administration and potential burden reductions for third parties unnecessarily submitting this information.

**Small Business Tax Returns That Could Not Be Processed to Internal Revenue Service's Computerized Records of Tax Accounts**

Audit Objective: Determine whether United States Income Tax Returns for an S Corporation, Forms 1120S, that could not be processed to IRS' computerized records of tax accounts are effectively resolved, concentrating primarily on instances in which IRS records indicate that taxpayers did not reply to required letters used to resolve situations in which these forms could not be processed.

**Effectiveness of the Notice and Review Function in Identifying and Correcting Trends in Erroneous Refunds and Notices**

Audit Objective: Evaluate the effectiveness of the Notice and Review Function in identifying and correcting trends in erroneous refunds and notices.

**Monitoring of Business Return Processing in Ogden and Cincinnati Service Centers**

**Audit Objective:** Quickly identify issues affecting the IRS' ability to timely process business tax returns under its new organizational structure.

**Processing Corporate Returns for Members of a Controlled Group**

Audit Objectives: Determine if the IRS is properly processing and assessing the correct amount of tax on corporation returns for members of controlled groups; determine if taxpayers are properly filing and paying the correct amount of tax; and evaluate IRS processing procedures, instructions, and programming to identify and evaluate controls.

**Gift Tax Payments and Associated Extensions to File (Follow Up)**

Audit Objective: Determine whether corrective actions were effectively taken on issues reported in the final audit report, *Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File*, dated September 22, 2000.

**Review of Lockbox Deposits Recorded by the Revenue Accounting Control System**

Audit Objectives: Evaluate lockbox bank procedures to correct overstated or understated deposits; review discrepancies in received dates between lockbox bank records and those reported to IRS; and determine repercussions to the lockbox banks for not meeting required deposit dates.

**Self-Employment Tax Paid on Income Not Credited Towards Social Security**

Audit Objective: Determine the universe of taxpayers impacted by self-employment tax paid on income not credited towards social security and their estimated burden in complying with the tax law.

**Review of Lockbox Security - Los Angeles**

Audit Objective: Evaluate the physical and internal controls of the Lockbox program in banks to determine whether taxpayer remittances are adequately safeguarded and that taxpayer information is protected from unauthorized disclosure.

**Review of Lockbox Security - Cincinnati**

Audit Objective: Evaluate the physical and internal controls of the Lockbox program in banks to determine whether taxpayer remittances are adequately safeguarded and that taxpayer information is protected from unauthorized disclosure.

**Review of Lockbox Security - Dallas**

Audit Objective: Evaluate the physical and internal controls of the Lockbox program in banks to determine whether taxpayer remittances are adequately safeguarded and that taxpayer information is protected from unauthorized disclosure.

**Review of Lockbox Security - National Rollup**

Audit Objective: Evaluate the physical and internal controls of the Lockbox program in banks to determine whether taxpayer remittances are adequately safeguarded and that taxpayer information is protected from unauthorized disclosure.

**Internal Revenue Service's Efforts to Implement New Provisions for Business Alternative Minimum Tax (Follow Up)**

Audit Objective: Determine whether corrective actions were effectively taken on issues reported in the final report, *More Small Corporate Taxpayers Can Benefit from the Alternative Minimum Tax Exemption Provision*, dated November 24, 2000.

**Refund Claims for Reparations**

Audit Objective: Asses whether the IRS has sufficient controls in place to identify original tax returns and amended returns with claims for reparations. (*Carryover from FY 2001*)

**Business Master File Submission Processing Transition Readiness**

Audit Objective: Determine whether the IRS is taking appropriate actions to address all of the relevant key issues impacting the timely and accurate processing of tax returns and to successfully implement the transition to two BMF Submission Processing Centers. (*Carryover from FY 2001*)

**Use of Restricted Interest on Business Master File Tax Accounts**

Audit Objective: Determine if the IRS is achieving its goal of reducing the high number of erroneous restricted interest assessments through increasing development of automation; developing a quality review process; educating the workforce; and measuring the results of the program. (*Carryover from FY 2001*)

**Examination Function Productivity**

Audit Objective: Analyze and trend Examination results to identify changes in productivity.

**Delivery of Field Specialist Services**

Audit Objective: Evaluate the Field Specialist's effect on Examination cycle time, and identify opportunities for improvement.

**Delivery of Legal Advice**

Audit Objective: Evaluate the Chief Counsel's effect on Examination cycle time, and identify opportunities for improvement.

**Benefits to United States Corporation Tax Return, Form 1120, Electronic Filing and Barriers to Overcome**

Audit Objective: Identify the opportunities and barriers to implementing United States Corporation Tax Return, Form 1120, electronic filing.

**Advanced Pricing Agreements**

Audit Objective: Determine whether there are opportunities to improve Advanced Pricing Agreement Services to Small Business Taxpayers.

**Effect of Reorganization on First and Mid-Level Large and Midsize Business Division Managers**

Audit Objective: Determine whether the reorganization goals for first and mid-level Large and Mid-Size Business Division managers are being achieved.

**Actions to Encourage Accurate Employer Wage and Tax Statement Social Security Number Reporting**

Audit Objective: Determine whether the Social Security Administration's concerns with accurate employer Wage and Tax Statement Social Security Number reporting have been addressed by IRS actions.

**Penalty Administration - Assessments and Abatements**

Audit Objective: Determine whether penalty assessments and abatements are consistently administered.

**Initiative to Improve Employer Identification Number Process**

Audit Objective: Evaluate whether processes for obtaining Employer Identification Numbers are resulting in better timeliness and reducing taxpayer burden.

**Bankruptcy Funds Transferred to the Excess Collection File**

Audit Objective: Evaluate whether funds in Excess Collections are properly associated with Bankrupt Taxpayer Accounts to comply with legal requirements.

**Development of e-Government for Small Business/Self-Employed Taxpayers**

Audit Objective: Identify the e-Government plans and requirements established by Small Business/Self-Employed, and compare them with government and industry standards and practices.

**Outsourcing Toll-Free Telephone Services**

Audit Objective: Survey government and industry call center practices to identify opportunities and barriers to outsourcing some toll-free operations.

**Automated Collection System Toll-Free Telephone Service**

Audit Objective: Determine whether the Automated Collection System toll-free system provides sufficient taxpayer access and quality service.

**Consolidation of the Small Business/Self-Employed Automated Collection System Sites**

Audit Objective: Evaluate whether Customer Contact Center implementation has resulted in achieving organizational goals.

**Over-Aged Account Maintenance Transcripts**

Audit Objective: Evaluate the effect over-aged Accounts Maintenance Transcripts have on taxpayers.

**Evaluation of Business e-Mail Response Accuracy**

Audit Objective: Evaluate the process for staffing and responding to business e-mail questions to identify methods to improve quality.

**Productivity of the Toll-Free Telephone System Time Usage by Customer Service Representatives**

Audit Objective: Determine whether IRS call center management practices to ensure efficient time usage by Customer Service Representatives are in accordance with industry practices.

**Program Changes and Productivity of the Toll-Free Telephone System Equipment**

Audit Objective: Evaluate whether the Customer Service equipment and program enhancements have resulted in increased service levels to taxpayers.

**Productivity of the Toll-Free Telephone System Toll-Free Line for Tax Forms**

Audit Objective: Evaluate the effectiveness and efficiency of tax forms delivery through the toll-free system.

**Customer Contact Center Readiness to Provide Toll-Free Telephone Service**

Audit Objective: Evaluate whether Customer Contact Centers have obtained the resources and developed the processes to accomplish organizational goals.

**Assessment of Customer Contact Center's Quality Best Practices**

Audit Objective: Compare Customer Contact Center practices to industry best practices to identify whether there are methods and techniques to improve call quality.

**Assessment of Employee Skills and Training to Specialize at Customer Contact Centers**

Audit Objective: Evaluate whether employee skills are sufficient to effectively and efficiently answer the calls routed to the group.

**Controls Over Business Taxpayer Accounts with Frozen Million Dollar Refunds (Follow Up)**

Audit Objective: Determine if recommendations made in our September 1999 report entitled *Controls Should Be Strengthened Over Business Taxpayer Accounts with Frozen Million Dollar Refunds* were effective. (Carryover from FY 2001)



**Monitoring Compliance of Partnership Withholding Requirements**

Audit Objective: Using the most recent tax year data available, determine the number of partnerships that appear to be liable for withholding taxes on foreign partners, but did not file the required withholding forms or pay the taxes. *(Carryover from FY 2001)*

**Control Over Refunds To Foreign Partners**

Audit Objective: Determine the overall effect of not matching refund claims by foreign partners with their shares of the Section 1446 tax withheld by the partnerships. *(Carryover from FY 2001)*

**Penalty Administration for Business Taxpayers with Extensions to File**

Audit Objective: Determine the economic impact of the 1996 changes to extension regulations.

**Notice Clarity Initiative**

Audit Objectives: Determine whether the IRS has: 1) established an organizational structure that provides an effective framework for successfully achieving both its notice clarity and notice redesign operations; 2) defined operational goals and strategies and developed operating plans that can be effectively used for identifying, prioritizing, and conducting its future notice redesign efforts; and 3) developed an adequate system of controls for assessing the level of organizational effectiveness and efficiency achieved by the Notice Clarity function. *(Carryover from FY 2001)*

**Abusive Trust Strategy**

Audit Objective: Determine whether the Internal Revenue Service has an effective program to identify domestic trusts with a potential for noncompliance. *(Carryover from FY 2001)*