

Department of the Treasury

*Treasury Inspector General for
Tax Administration*

Office of Audit



**ANNUAL AUDIT PLAN
FISCAL YEAR 2005**

Table of Contents

<u>Message from the Deputy Inspector General for Audit</u>	Page 1
<u>The Mission and the Organization</u>	Page 4
<u>Audit Program for Fiscal Year 2005</u>	Page 5
<u>Office of Audit’s Program Areas</u>	Page 7
<u>Information Systems Programs</u>	Page 7
<u>Headquarters Operations and Exempt Organizations Programs</u>	Page 9
<u>Wage and Investment Income Programs</u>	Page 11
<u>Small Business and Corporate Programs</u>	Page 13
<u>Appendix I – Organization Chart – Treasury Inspector General for Tax Administration Office of Audit</u>	Page 16
<u>Appendix II – Major Management Challenges Facing the Internal Revenue Service</u>	Page 17
<u>Appendix III – The Internal Revenue Service’s Strategic Goals and Objectives</u>	Page 18
<u>Appendix IV – The President’s Management Agenda</u>	Page 19
Office of Audit’s Fiscal Year 2005 Staff Day Allocation by:	
<u>Appendix V – Major Challenges Facing Internal Revenue Service Management</u>	Page 21
<u>Appendix VI – Internal Revenue Service Strategic Plan Goals</u>	Page 22
<u>Appendix VII – The President’s Management Agenda Initiatives</u>	Page 23
<u>Appendix VIII – Strategic Planning Questions</u>	Page 24
<u>Appendix IX – Statutory and Discretionary Audits</u>	Page 25
List of Planned Audits for Fiscal Year 2005:	
<u>Appendix X – Information Systems Programs</u>	Page 26
<u>Appendix XI – Headquarters Operations and Exempt Organizations Programs</u>	Page 32
<u>Appendix XII – Wage and Investment Income Programs</u>	Page 38
<u>Appendix XIII – Small Business and Corporate Programs</u>	Page 44

Treasury Inspector General for Tax Administration - Office of Audit

Appendix XIV – List of Planned Audits for Fiscal Year 2005 by Management Challenges, Internal Revenue Service Goals and Objectives, Presidential Initiatives, and Strategic Planning Questions Page 53

Appendix XV – Codes Used in the List of Planned Audits for Fiscal Year 2005 by Management Challenges, Internal Revenue Service Goals and Objectives, Presidential Initiatives, and Strategic Planning Questions..... Page 62

Fiscal Year 2005 Annual Audit Plan

MESSAGE FROM THE DEPUTY INSPECTOR GENERAL FOR AUDIT

Administering America's tax laws and collecting the revenues that fund most Government operations and public services is a complex job and, naturally, is a concern of the American public, the President, the Congress, and other stakeholders. The Treasury Inspector General for Tax Administration's (TIGTA) Office of Audit, established in 1999, is responsible for evaluating all Internal Revenue Service (IRS) programs. The TIGTA believes that the IRS, in Fiscal Year (FY) 2005, will continue to struggle with the same issues previously identified as major challenges, including providing effective customer service and enforcement, modernizing its archaic computer systems, complying with its financial stewardship duties, and meeting human capital requirements, while ensuring the security of its staff, the computer systems, the data, and its property. Some of the concerns of the current Administration, as cited in *The President's Management Agenda*,¹ are also issues at the IRS. In addition, the IRS and the Government Accountability Office (GAO) have listed some of these issues as material weaknesses in IRS programs.

Customer service, enforcement, and modernization are primary goals that the IRS includes in its recently released updated Strategic Plan – a roadmap for IRS operations over the next five years. The plan details the IRS' three strategic goals for improving taxpayer service; enhancing enforcement of the tax law; and modernizing the IRS through its people, processes, and technology. In releasing the Plan, the IRS Commissioner stressed the IRS' commitment to continued service, even as the focus on enforcement is enhanced. He believes it is not an issue of service OR enforcement, but of service AND enforcement, and that the two together will equal compliance.

The IRS' first goal, improve taxpayer service, includes helping the taxpaying public understand their tax obligations and making it easier to participate in the tax system. Minimizing the burden for compliant taxpayers and increasing enforcement on noncompliant taxpayers, the second goal, will move the IRS towards full participation by all taxpayers in the tax system. By enhancing enforcement, the IRS will strive to rectify a wide range of tax gap causes, from inadvertent noncompliance stemming from lack of knowledge, confusion, poor record keeping, differing legal interpretations, unexpected personal emergencies and temporary cash flow problems, to willful and fraudulent avoidance of taxes. Investments in tax shelters, trusts, and other structured products that promise tax benefits that do not conform to the law are all too common. The IRS' Plan includes objectives to detect and deter some of these corporate and high-income

¹ *The President's Management Agenda, Fiscal Year 2002*;
http://www.whitehouse.gov/omb/budintegration/pma_index.html.

individual taxpayer corrosive activities, domestic and off-shore tax and financial criminal activity, as well as abuse and misuse of tax-exempt and governmental entities.

In order to achieve the first two goals, it is necessary for the IRS to accomplish its third goal, modernization. Since its reorganization, mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98),² the IRS has made progress in updating some systems and processes. For example, in 2003 some 52.9 million taxpayers filed tax returns electronically.³ In addition, in late 2003 the IRS launched a suite of Internet-based business tools that give tax professionals and financial institutions easier access to client information, including on-line registering to create an electronic account, applying for and receiving a Preparer Tax Identification Number immediately over the Internet, as well as an Interactive Taxpayer Identification Number Matching pre-filing service for banks and others that pay income subject to backup withholding.⁴ Other services will also be available soon.

The modernization effort includes reengineering processes. The IRS, for example, has taken action to increase the levels of compliance, and enforcement activities have improved. Collection yields for FY 2003, for instance, were significantly higher than the low point occurring in FY 1999. Examinations of individual tax returns have also increased. In addition, the results of the National Research Program, which will be completed soon, promise improvements in the selection for examination process. This progress was accomplished even though the Compliance staffing has decreased from 1998-1999 levels.

The IRS' financial statements and related activities remain a concern to stakeholders, even though the GAO found that the IRS' FY 2003 financial statements were fairly presented in all material respects.⁵ But, because of serious deficiencies in financial systems and internal control weaknesses, the IRS again had to rely extensively on resource-intensive compensating processes to prepare its financial statements. Despite strides in some areas (e.g., the IRS improved the accuracy and reliability of its property and equipment inventory records and implemented a system to ensure that software and software licenses were properly controlled and used in accordance with license agreements), the IRS continues to be challenged by control weaknesses and system deficiencies affecting financial reporting, unpaid tax assessments, tax revenue and refunds, and computer security. The absence of a financial management system that can produce timely, accurate, and useful information needed for day-to-day decisions continues to be one of the largest obstacles facing IRS management.

² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

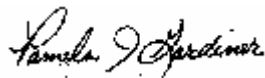
³ Publication 55B, *Internal Revenue Service Data Book 2003*

⁴ <http://bsm.web.irs.gov/eservices/News/IR-03-1281.doc>

⁵ *Financial Audit: IRS's Fiscal Years 2003 and 2002 Financial Statements* (GAO-04-126, November 13, 2003).

Security of IRS' critical infrastructure also remains a concern to stakeholders. As history has shown, it is extremely important to take precautions in order to protect computer systems and other equipment, taxpayer data, and employees from both natural and man-made disasters. In addition, it is necessary to build security into all systems and processes since security breaches could be orchestrated by many different types of individuals (e.g., computer hackers, unhappy taxpayers, disgruntled employees, and terrorists). Although the IRS continues to take steps to improve security, it remains a major challenge.

The Office of Audit's FY 2005 Annual Audit Plan presents an audit program that will assess areas related to the major challenges facing the IRS, *The President's Management Agenda* initiatives, and the IRS' strategic goals and objectives. In addition, the TIGTA 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 FY 2005 coverage of those programs is included in the section entitled Office of Audit's Program Areas.



Pamela J. Gardiner
Acting Inspector General

THE MISSION AND THE ORGANIZATION

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ established the Treasury Inspector General for Tax Administration (TIGTA) with the powers and authorities given to other Inspector General organizations under the Inspector General Act.² With its focus devoted entirely to the IRS, the TIGTA is charged 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 it 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, the IRS Oversight Board, the Department of the Treasury, the Congress, and the public.

The 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 by assessing efficiency, economy, effectiveness, and program accomplishments. Office of Audit reviews also help 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. 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 emerging issues, the AIGAs maintain liaison and working contact with applicable IRS executives, Department of Treasury and Government Accountability Office officials, and Congressional staffs.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² 5 U.S.C.A. app. 3 (West Supp. 2003).

AUDIT PROGRAM FOR FISCAL YEAR 2005

The Office of Audit Fiscal Year 2005 Annual Audit Plan communicates the Treasury Inspector General for Tax Administration's (TIGTA) audit priorities to the Internal Revenue Service (IRS), the Congress, and other interested parties. Many of the activities described in the Annual Audit Plan address the fundamental goals related to the IRS' mission to administer its programs effectively and efficiently.

The Annual Audit Plan is organized around the IRS' core business activities. Emphasis is placed on the mandatory coverage imposed by the IRS Restructuring and Reform Act of 1998 (RRA 98)¹ and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits. The IRS' modernization efforts will also be closely monitored to identify problems in implementing important programs and improving customer service.

The balance of TIGTA's audit work is discretionary and will focus on the major management issues facing the IRS, the IRS' progress in achieving its strategic goals and eliminating identified material weaknesses, and the IRS' response to *The President's Management Agenda* initiatives. In addition, audits will address areas of concern to the IRS Commissioner, the IRS Oversight Board, the Secretary of the Treasury, the Congress, and other stakeholders.

To identify FY 2005 discretionary audit coverage, the TIGTA developed strategic planning questions to focus the audits on the most important tax administration issues. These questions, tailored to key IRS issues, are designed to give TIGTA the ability to answer, with a high degree of confidence, the key questions that IRS management and external stakeholders are asking, and provide a clear context for the majority of the audits. Some factors considered when developing these questions include: the IRS' Strategic Planning framework, the TIGTA's assessment of the IRS' major management challenges, and the Government Accountability Office's high-risk areas for the IRS. The six strategic planning questions are:

1. Is the IRS effective in maximizing taxpayer compliance?
2. Is the IRS improving its customer service to every taxpayer in every interaction?
3. Is the IRS advancing financial and management reforms, including *The President's Management Agenda*?
4. Is the IRS sufficiently modernizing its information technology and providing the intended benefits to taxpayers, such as e-services?
5. Is the IRS adequately supported with timely, economical, and effective information and services?

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

6. Is the IRS adequately protecting its employees, facilities, data, and systems?

These questions are, by design, very broad, and answering them could require work in various IRS divisions/functions by more than one Office of Audit business unit. For this reason, each Assistant Inspector General for Audit (AIGA) is taking the lead in coordinating the work needed to answer one of the questions. Further, because no audit organization has the resources to focus on *every* issue *all* the time, the Office of Audit will initially focus *primarily* on the first four questions.

Identifying audits that will answer these questions requires incorporating a risk assessment process that integrates professional judgment into assessing the probability that adverse conditions or events may occur and applying risk factors to key auditable areas in the IRS. Some 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 results. Input from TIGTA executives and top-level IRS management, current workload, and other factors are also considered before a final decision is made on which audits will be conducted.

TIGTA's listing of the major management challenges facing the IRS in FY 2005 is included as Appendix II. The IRS' goals and objectives for the next five fiscal years are highlighted in Appendix III. Key initiatives of *The President's Management Agenda* are included as Appendix IV.

Planned FY 2005 audits have been mapped to the management challenges, the IRS' goals and objectives, *The President's Management Agenda* initiatives, and the strategic planning questions. The graphs in Appendices V, VI, VII, and VIII illustrate the FY 2005 resources that will address the audits as they correlate to each. Appendix IX shows the resources planned for statutory versus discretionary audits.

OFFICE OF AUDIT'S PROGRAM AREAS

The following narratives briefly describe the state of some of the Internal Revenue Service's (IRS) major programs and the Office of Audit's Fiscal Year (FY) 2005 Audit Program that will further assess those programs.

Information Systems Programs

For the IRS, modernizing technology has been an ongoing challenge. The current Business Systems Modernization (BSM) effort, which began in 1999, is expected to last 10 to 15 years at a cost of \$7 to \$10 billion. In addition to establishing and executing a program to modernize the IRS' core business systems, the BSM's strategic plan includes providing an infrastructure that is sufficiently flexible to adapt to evolving business needs and that can be efficiently managed. The IRS' goal of providing high-quality, efficient, and responsive information services to its operating divisions is heavily dependent on this modernization of its core computer business systems while maintaining the existing systems. It is also reliant on the security of those systems and the buildings that house those systems, as well as the safety of the people who operate the computers.

During FY 2004, the Treasury Inspector General for Tax Administration (TIGTA) assessed the progress of the modernization efforts as well as the security of the IRS. A recent audit¹ showed that the IRS and the PRIME² contractor have deployed projects that provide value to taxpayers and have built the infrastructure needed to support these projects. The report further states that the IRS has developed an enterprise architecture to guide the BSM program. While progress is being made, the IRS and its contractors have drawn increased criticism due to continuing schedule delays and cost increases.

To obtain fresh and independent assessments from outside experts on the health of the BSM program, the IRS launched a comprehensive review consisting of three studies and a BSM benchmarking analysis. In addition, the PRIME contractor launched an internal study. The studies resulted in 21 recommendations for improvement in the BSM program, 15 of which are similar to those made in TIGTA reports issued during the past 3 years. In several instances, the principal recommendations were reported multiple times during this period. Since many of TIGTA's prior recommendations have resurfaced as part of the recent studies, the TIGTA concludes that BSM weaknesses continue to exist, and that the IRS and its contractors need to complete planned corrective actions to

¹ *Annual Assessment of the Business Systems Modernization Program* (Reference Number 2004-20-107, dated June 3, 2004).

² 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.

address the root causes identified in the studies. Over the past two fiscal years, the TIGTA has cited four primary challenges the IRS and its contractors must overcome to be successful: 1) implement planned improvements in key management processes and commit necessary resources to enable success, 2) manage the increasing complexity and risks of the BSM program, 3) maintain the continuity of strategic direction with experienced leadership, and 4) ensure PRIME contractor performance and accountability are effectively managed. Based on the results of recent audits, as well as the study findings, the TIGTA believes these four challenges still need to be met to achieve program success.

Likewise, challenges remain in the area of security even though the IRS has experienced some successes. For example, one TIGTA report³ showed that the IRS made commendable progress in certifying its many computer systems, but additional work remains to be performed before the computer security material weakness can be downgraded. The IRS has initiated efforts to revamp the certification process by placing all of its systems into one of four categories and has established certification requirements for the General Support Systems, Major Applications, and Applications of Interest. Other Applications will be mapped to the appropriate General Support System.

Another report⁴ discussed the Infrastructure Shared Services (ISS) architecture, which is intended to provide a secure technical infrastructure to support and enable the delivery of the IRS' modernized business systems. The ISS was the first BSM project to undergo the security certification testing processes required by the Office of Management and Budget and the Department of the Treasury. Although many challenges were encountered during this process, the completion of the ISS in May 2002 was a critical step in providing opportunities for the development and deployment of all other BSM projects. Several security weaknesses in the ISS, however, had not been adequately addressed.

Since perimeter controls are strong but can be avoided and infrastructure controls and applications security are weak, security issues remain a problem. For the last three years, TIGTA assessments have been that the security infrastructure and the applications that guard sensitive data are weak because of inadequate accountability, security awareness, and training for key security employees. The primary causes are management and operational issues, not technical ones. The IRS has focused on the technical solutions but has put little effort into management and operational concerns and does not have the right people in the right places to do the right job. The end result is that the IRS still does not have an organizational culture that places strong emphasis on the security and privacy of taxpayer data.

Thus, the IRS remains vulnerable, and will likely continue to be at risk throughout the life of its technology modernization projects. The 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 2005

³ *The Certification and Accreditation of Computer Systems Should Remain in the Computer Security Material Weakness* (Reference Number 2004-20-129, dated August 9, 2004).

⁴ *Security Weaknesses in the Modernization Infrastructure Have Not Been Adequately Addressed* (Reference Number 2004-20-132, dated August 12, 2004).

work planned in Information Systems Programs will position the TIGTA to meet the IRS Restructuring and Reform Act of 1998 (RRA 98)⁵ requirement for reporting annually on the adequacy and security of IRS technology. A complete list of the Program's planned audits and audit objectives is included in Appendix X.

Headquarters Operations and Exempt Organizations Programs

The Headquarters Operations and Exempt Organizations Programs evaluates several IRS programs, including Financial Management, the Government Performance and Results Act of 1993 (GPRA),⁶ the Criminal Investigation (CI) function, the Tax Exempt and Government Entities (TE/GE) Division, the Taxpayer Bill of Rights, and the Agency-Wide Shared Services (AWSS) function. The TIGTA will be reviewing programs in each of these organizations.

The IRS' financial statements and related activities continue to be of concern to IRS stakeholders. Because of the significance of IRS collections to federal receipts and, in turn, to the consolidated financial statements of the Government and Congress' interest in financial management at the IRS, the Government Accountability Office (GAO) audits IRS' financial statements annually to determine whether: 1) the financial statements the IRS prepares are reliable, 2) IRS management maintained effective internal controls, and 3) the IRS complies with selected provisions of significant laws and regulations and its financial systems comply with the Federal Financial Management Improvement Act of 1996.⁷

In its audit of the IRS' FY 2003 financial statements, the GAO concluded that the records were fairly presented in all material respects.⁸ The GAO, however, identified some continuing serious deficiencies in the IRS financial systems. The IRS continues to be challenged by control weaknesses and system deficiencies affecting financial reporting, unpaid tax assessments, tax revenue and refunds, and computer security. Even so, the GAO recognized IRS' progress in some areas. For example, the IRS improved the accuracy and reliability of its property and equipment inventory records and implemented a system to ensure that software and software licenses were properly controlled and used in accordance with license agreements. However, the IRS again had to rely extensively on resource-intensive compensating processes to prepare its financial statements. Without a financial management system that can produce timely, accurate, and useful

⁵ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁶ 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.).

⁷ Pub. L. No. 104-208, 110 Stat. 3009.

⁸ *Financial Audit: IRS's Fiscal Years 2003 and 2002 Financial Statement* (GAO-04-126, dated November 13, 2003).

information needed for day-to-day decisions, the IRS' financial stewardship responsibilities continue to be one of the largest challenges facing IRS management.

Along with financial accountability, the Federal Government has a stewardship obligation to prevent fraud, waste, and abuse and to use tax dollars appropriately. The Office of Procurement, a key partner in delivering the IRS mission, awards and manages obligations that amount to nearly 20 percent of the IRS budget. Most mission critical programs rely on contract support. Competitive sourcing, an initiative in *The President's Management Agenda*, will increase the Office of Procurement's workload. Additionally, congressional concerns have been raised regarding the propriety of payments to Government contractors. TIGTA audits have also identified some issues in the contract area. For example, a recent audit of the Nationwide Electronic Tax Forum Conferences and Exhibitions Contract showed that the contractor's documentation did not adequately support the tax forum income and expenses reported to the IRS for FYs 2002 and 2003. This audit was initiated as the result of concerns raised by the IRS, including the timeliness and outcome of the contractor's reconciliation of tax forum income with expenses.⁹

The CI function's mission is to serve the American public by investigating potential criminal Internal Revenue Code violations in order to foster confidence in the tax system. In 1999, an independent review of the function, headed by Judge William Webster, reported that the CI function was drifting from its mission. Beginning in FY 2002, the CI function began to turn around the negative trends from earlier years. Specifically, the number of subject investigations initiated increased, more time was spent directly on subject investigations, and fewer days were expended to discontinue a subject investigation. These indicators continued to show improvement in FY 2003. A major objective of the CI function's strategy the last several years has been increased support of compliance efforts through the increased application of resources on tax administration investigations. This emphasis is reflected by the significant increases from FYs 2001 to 2002 in the number of subject investigations initiated in the Legal Source Tax Crimes Program (52 percent) and those with tax-related violations (33 percent). However, the number of legal source tax investigations initiated decreased slightly in FY 2003, and the number of subject investigations initiated with tax-related violations remained virtually unchanged in FY 2003. The CI function management must remain vigilant to ensure the continued progress.

The IRS' TE/GE Division encompasses several organizations, including Employee Plans; Exempt Organizations; Indian Tribal Governments; Federal, State and Local Governments (FSLG); and Tax Exempt Bonds. These organizations face many different types of issues, ranging from the safety of investments in employee plans to political activities of churches and gambling excise taxes. The overriding mission of each organization, however, is to provide top-quality service by helping each segment understand and fulfill its tax obligations. FY 2004 audits identified several issues in the FSLG area. For example, FSLG office management has begun the process to identify

⁹ *Review of the Nationwide Electronic Tax Forum Conferences and Exhibitions Contract (Reference Number 2004-10-128, dated July 28, 2004)*

Federal, state, and local government customers, but it needs to take a more structured approach to ensure actions for identifying customers are successful. In addition, the FSLG office management has implemented a process to identify and assign compliance check cases for review by field personnel and is currently attempting to assess the productivity of their identification process. Again, the FSLG office does not have a structured process nationwide to capture and analyze the results of compliance check activity. These continuing problems will hamper TE/GE Division activities if not corrected.

Like the TE/GE Division, the AWSS function has a broad spectrum of activities, including security, rent, facilities and records management, personnel services, equal employment and diversity, procurement, etc. Security of IRS employees, records, and facilities is of major concern, especially after the September 11, 2001, terrorist attacks and the subsequent anthrax scare. Besides security, human capital issues include the implementation of the new HR Connect System, accurate and timely processing of personnel and payroll transactions, upgrading of some positions, cross-functional training, and union activities. Space costs are also of great concern.

The Office of Audit also addresses IRS offices reporting directly to the IRS Commissioner, including the Taxpayer Advocate Service, Office of Chief Counsel, Appeals, and Communications and Liaison. The National Taxpayer Advocate endeavors to identify and respond to taxpayer concerns, and advocates changes in law or procedures to reduce taxpayer burden. The Chief Counsel's strategic objective includes providing expanded guidance and increased legal support to IRS units while the Appeals' goal is to ensure that taxpayers are aware of their appeal rights. The Governmental Liaison and Disclosure Division oversees the confidentiality rights of taxpayers while addressing the public's right to access information. For example, this office ensures that taxpayer information is not disclosed to third parties without proper authorization, information requested under the Freedom of Information Act¹⁰ is released, and taxpayers' rights are protected.

The TIGTA will assess operations in many of these offices during FY 2005. A complete list of the Program's planned audits and audit objectives is included in Appendix XI. Two audits address statutory requirements related to the IRS' financial statements and other financial reports. Another three are in response to the RRA 98 statutory reporting requirements.

Wage and Investment Income Programs

The IRS' Wage and Investment (W&I) Division serves approximately 122 million customers, accounting for 94 million returns. These taxpayers file a Form 1040 tax return with no accompanying Schedules C, E, F, or Form 2106 and have no international activity. Third parties report most of the income for this group, and the vast majority of

¹⁰ U.S.C.A. § 552 (West Supp. 2003).

taxes are collected through third-party withholding. Most of these taxpayers are highly compliant and deal with the IRS only when they file their tax returns. Compliance issues that do occur are often the result of a taxpayer's confusion and are usually detected through technology-based matching programs. Over half of these taxpayers prepare their own tax returns, presenting a great opportunity for the W&I Division to provide top quality service to a large number of taxpayers who otherwise would not receive assistance.

The W&I Division strives to maintain a "customer-first" focus through routinely soliciting information concerning the needs and characteristics of its customers and implementing programs based on the information received. It partners with other Federal agencies, financial institutions, tax preparers, trade organizations, community groups, state and local authorities, and others to provide one-stop multi-agency tax information and education services to its customers. The W&I Division attempts to increase voluntary compliance through its education and outreach programs. Thus, the W&I Division should be positioned to provide professional and courteous service to customers to help them understand and meet their tax obligations.

Every year, the IRS helps millions of taxpayers understand their obligations under the tax code by making information available on its Web site, answering questions on its toll-free telephone lines or in person at local offices, and responding to correspondence. Sometimes legislation is passed late in the calendar year and the IRS has to move quickly to get forms and publications as well as computer programs updated with new tax law information. In addition, the IRS administers the Earned Income Tax Credit (EITC) Program, a refundable Federal income tax credit for low-income working individuals and families. In 2002, nearly 21 million people claimed more than \$36 billion from the credit, making the EITC the nation's largest anti-poverty program. The goals of the EITC office are to increase the number of eligible taxpayers who claim the credit and reduce the overall number of EITC refunds paid in error. Two key components of the program – outreach and compliance – support these goals.

Nearly 53 million individual income tax returns were filed electronically in FY 2003, but the IRS still has a long way to go to meet the goals set by the RRA 98. In an attempt to meet the RRA 98 goal of having 80 percent of all tax returns filed electronically by 2007, the IRS aggressively markets becoming an *e-file* Provider to private firms and individuals. The *e-file* Program enables taxpayers to send their tax returns to the IRS in an electronic format via an authorized IRS *e-file* Provider, known as an Electronic Return Originator (ERO). The primary means by which the IRS regulates EROs are the ERO application screening process and the ERO monitoring program. A recent TIGTA audit¹¹ showed that the IRS continued to authorize individuals to participate in the *e-file* Program without ensuring they had met all required screening checks. In 2003, the IRS took steps to strengthen its monitoring program by requesting computer programming that will continuously monitor the tax accounts of EROs for suspect transactions. However, improvements are needed in the process followed to monitor individuals once

¹¹ *Improvements Are Needed in the Screening and Monitoring of E-File Providers to Protect Against Filing Fraud* (Reference Number 2004-40-013, dated November 3, 2003).

they have been authorized to participate in the *e-file* Program. For example, the monitoring program did not include requirements to perform periodic criminal background checks, or to analyze and use the results of the percentage of rejected returns¹² by an ERO as an indicator of noncompliance or possible educational outreach opportunities.

The Office of Audit FY 2005 Annual Audit Program will address the W&I Division's attempts to meet its goals and objectives. In addition to assessing the W&I Division's pre-filing and filing season plus the status of compliance efforts, five planned audits will satisfy statutory requirements of the RRA 98. A complete list of the Program's planned audits and audit objectives is included in Appendix XII.

Small Business and Corporate Programs

Like the W&I Division, the IRS' Small Business/Self-Employed (SB/SE) and Large and Mid-Size Business (LMSB) Divisions focus on helping taxpayers understand the tax laws so that they can fulfill their tax obligations, processing the tax returns, and enforcing compliance with the tax laws. Unlike taxpayers served by the W&I Division, these taxpayers usually have much more frequent contact with the IRS, and these contacts are usually more unique and complicated. The IRS, nevertheless, strives to provide top quality service to each taxpayer in every interaction.

The approximately 33 million self-employed and supplemental income earners serviced by the SB/SE Division have substantially higher incomes and file twice the number of forms and schedules than the W&I taxpayers. Thus, these taxpayers often spend more time working on their taxes or rely more frequently on paid tax preparers or IRS expertise. The SB/SE Division also serves about 7 million small businesses, including corporations and partnerships with assets of \$10 million or less. While many of these taxpayers face the same tax issues as large corporations, they often do not have tax professionals on staff. Their tax compliance issues frequently stem from a lack of understanding of tax law requirements, inadequate accounting practices, or resources and cash flow problems. In addition, the SB/SE Division services taxpayers filing estate and gift returns or fiduciary returns, plus individuals with international tax returns. The SB/SE Division's employees focus on its mission of providing top quality service tailored to this taxpayer segment.

The LMSB Division serves a small group of taxpayers – less than 200,000 corporations, subchapter S corporations, and partnerships with assets greater than \$10 million. Many of the taxpayers in this group have a tax staff, and the issues the IRS faces in its contacts with these taxpayers are much more complicated than its dealings with the W&I and

¹² When an *e-filed* return is transmitted to the IRS, it is run through a series of validity and error checks. These checks look for such things as names and Social Security Numbers that match IRS records, math errors, and other common errors. If errors are found, the return is rejected back to the ERO to fix the error and resubmit the return. The percentage of returns transmitted versus returns rejected is known as the "reject rate."

SB/SE taxpayers. For example, the IRS must effectively deal with globalization, tax shelters, offshore tax havens, and industry specialization. Some of these issues are extremely difficult to address. Abusive tax shelters, for instance, are estimated to be a \$10 billion tax issue, and transactions are frequently legally complex and dependent on exploitation of legal loopholes.

The Divisions are endeavoring to revise their compliance program by reengineering the collection and examination practices. Some improvements have been noted. For example, the level of compliance activities and the results obtained in many Collection function areas in FY 2003 showed a continuing increase while the number of Collection function field staff remained unchanged. The President's proposed FY 2005 budget provides for additional Collection function staffing and legislation to allow some cases to be worked by contract staff. However, if neither of these provisions is approved, a significant number of cases will remain unworked.

The Examination function staffing decreased during FY 2003, however, the percent of tax returns examined increased, mainly due to increases in correspondence examinations of tax returns for individuals, which are conducted by mailing notices to the taxpayer. While there were increases in the number of individual examinations overall during FY 2003, there was a larger increase in the coverage rate of individuals earning \$100,000 and over than for those under \$100,000. In addition, there was a significant increase in the number of partnership return examinations. The number of corporate tax return examinations, however, continued the decline that started in FY 1997, decreasing a total of 67 percent since that time. The President's proposed FY 2005 budget provides for additional Examination function staffing. The Commissioner has indicated that some of the increase would be allocated to corporate compliance.

The SB/SE Division initiated an in-depth review of the examination process to reengineer and/or redesign processes, products, and services. A TIGTA audit¹³ of one reengineering project – the Field Examination Reengineering Pilot – showed that many aspects of the Pilot were effectively implemented. The Project Team provided effective oversight of the Pilot implementation and ensured the new process was being followed and working as intended. The reengineered process provided enhanced uniformity in workpaper documentation. Also, concurrence¹⁴ and engagement¹⁵ meetings were designed to promote greater collaboration and cooperation among group managers, revenue agents, and taxpayers. However, results from the Pilot showed that three of the five goals established for the Pilot were either not met or not fully measured. The Pilot cases did not result in decreased cycle time per case, and there was no quantitative analysis to determine whether employee and customer satisfaction measures were maintained or increased in comparison with using the old Field Examination function

¹³ *Many Aspects of the Field Examination Reengineering Pilot Were Effectively Implemented; However, Continued Monitoring Is Needed During the Nationwide Rollout* (Reference Number 2004-30-116, dated June 30, 2004).

¹⁴ Group Managers hold concurrence meetings with revenue agents for each case to promote collaboration and provide assurance that revenue agents properly planned for examining issues selected for verification.

¹⁵ Revenue agents hold engagement meetings with taxpayers or their representatives to provide a clear understanding of the actions, information, and expectations related to an examination.

process. To ensure that all reengineering goals are met, the IRS should carefully monitor the nationwide rollout.

Like the SB/SE Division, the LMSB Division has made some strides in reengineering its processes. For example, studies of the IRS between 1995 and 2001 identified concerns about whether its research programs were generating data that was both relevant and effective. The LMSB Division Research Unit is providing the organizational structure and customer focus to address areas with the greatest interest and necessity, while implementing the IRS' vision for research. To date, LMSB Division executives have focused considerable effort and made important progress to integrate the Research Unit's results into key decision-making processes and to improve the effectiveness of strategic initiatives for large businesses. While important progress has been made to use research for improving programs, challenges remain concerning internal operational processes and procedures in three areas: the LMSB Division processes for managing research do not always follow best practices, particularly in the area of enhancing the credibility of research results; the LMSB Division could improve the process for evaluating the effectiveness of research efforts; and research projects could be better managed by using project management techniques.¹⁶

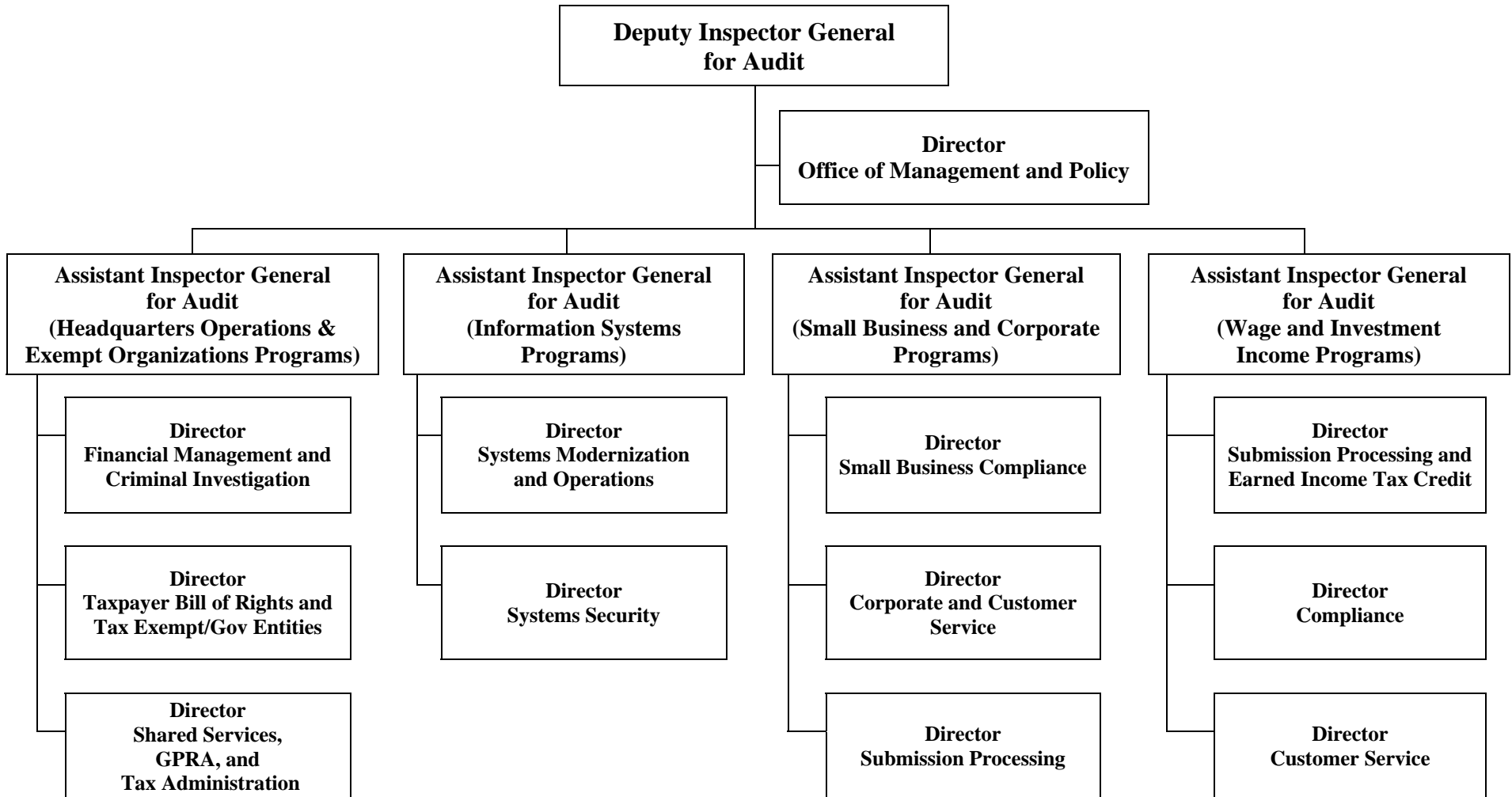
Another initiative, the Fast Track Resolution Pilot Program, was designed to accelerate the resolution of disputed tax issues in examinations of large taxpayers. The Program was effectively designed and managed to provide officials with enough reliable information needed for converting it into a permanent program. Statistics collected by the IRS show that 142 taxpayers were accepted into the 17-month pilot program, and approximately \$6.7 billion of recommended tax adjustments under dispute were resolved within the 120-day time period established for the pilot program. Although comprehensive data were not available on the extent to which the pilot program saved taxpayers and the IRS time and money, both taxpayers and the IRS believe using the Fast Track process to avoid the traditional Appeals or litigation processes produced savings.¹⁷

Both the SB/SE and the LMSB Divisions, however, continue to face challenges in administering programs that deal with tax gap issues, especially those resulting from corporate and high-income individual taxpayer corrosive activities as well as domestic and off-shore tax and financial criminal activity. During FY 2005, the TIGTA's Small Business and Corporate Programs will concentrate on assessing the IRS' efforts to deal with these and other issues. Three audits will address statutory requirements of the RRA 98. A complete list of the Program's planned audits and audit objectives is included in Appendix XIII.

¹⁶ *Important Progress Has Been Made in Using Research to Improve Programs for Large Businesses, but Challenges Remain* (Reference Number 2004-30-130, dated August 12, 2004).

¹⁷ *The Fast Track Dispute Resolution Pilot Program Was Successful, but Some Challenges Remain* (2004-30-119, dated July 12, 2004).

Organization Chart
Treasury Inspector General for Tax Administration Office of Audit



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

The Treasury Inspector General for Tax Administration (TIGTA) believes the major management challenges facing the Internal Revenue Service (IRS) in Fiscal Year 2005 are:

- ❖ Systems Modernization of the Internal Revenue Service.
- ❖ Tax Compliance Initiatives.
- ❖ Security of the Internal Revenue Service.
 - The Employees and the Facilities.
 - The Information Systems.
- ❖ Integrating Performance and Financial Management.
- ❖ Complexity of the Tax Law.
- ❖ Providing Quality Customer Service Operations.
- ❖ Erroneous and Improper Payments.
- ❖ Processing Returns and Implementing Tax Law Changes During the Tax Filing Season.
- ❖ Taxpayer Protection and Rights.
- ❖ Human Capital.

The TIGTA's FY 2004 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/oa_management.html.

**THE INTERNAL REVENUE SERVICE'S
STRATEGIC GOALS AND OBJECTIVES¹**

**IRS STRATEGIC PLAN
2005 – 2009**

**Goal 1 - Improve
Taxpayer Service**

Objectives

- Improve service options for the tax paying public
- Facilitate participation in the tax system by all sectors of the public
- Simplify the tax process

**Goal 2 - Enhance
Enforcement Of
The Tax Law**

Objectives

- Discourage and deter non-compliance with emphasis on corrosive activity by corporations, high-income individual taxpayers and other contributors to the tax gap
- Ensure that attorneys, accountants and other tax practitioners adhere to professional standards and follow the law
- Detect and deter domestic and off-shore based tax and financial criminal activity
- Deter abuse within tax-exempt and governmental entities and misuse of such entities by third parties for tax avoidance or other unintended purposes

**Goal 3 –
Modernize the IRS
Through Its
People, Processes
and Technology**

Objectives

- Increase organizational capacity to enable full engagement and maximum productivity of employees
- Modernize information systems to improve service and enforcement
- Ensure the safety and security of people, facilities and information systems
- Modernize business processes and align the infrastructure support to maximize resources devoted to frontline operations

¹ Excerpt from the Internal Revenue Service FY 2005 – 2009 Strategic Plan, dated June 2004.

THE PRESIDENT'S MANAGEMENT AGENDA
IMPROVING GOVERNMENT PERFORMANCE

President George W. Bush's Administration is dedicated to ensuring that the resources entrusted to the Federal Government are well managed and wisely used. The President sent to the Congress a bold strategy for improving the management and performance of the Federal Government. That strategy reads, in part:

To reform Government, we must rethink Government.

The need for reform is urgent. The Government Accountability Office (GAO) "high-risk" list identifies areas throughout the Federal Government that are most vulnerable to fraud, waste, and abuse. Ten years ago, the GAO found eight such areas. Today it lists 22. Perhaps as significant, Government programs too often deliver inadequate service at excessive cost....

... while the Government needs to reform its operations – how it goes about its business and how it treats the people it serves, it also needs to rethink its purpose – how it defines what business is and what services it should provide.

The President's vision for Government reform is guided by three principles. Government should be:

- Citizen-centered, not bureaucracy-centered;
- Results-oriented;
- Market-based, actively promoting rather than stifling innovation through competition.

The President has called for a Government that is active but limited that focuses on priorities and does them well. That same spirit should be brought to the work of reform. Rather than pursue an array of management initiatives, we have elected to identify the Government's most glaring problems – and solve them. *The President's Management Agenda* is a starting point for management reform.

- The Agenda contains five Government-wide ... goals to improve Federal management and deliver results that matter to the American people.
- It reflects the Administration's commitment to achieve immediate, concrete, and measurable results in the near term.
- It focuses on remedies to problems generally agreed to be serious, and commits to implement them fully.
- The goals in this Agenda are being undertaken in advance of, not instead of, other needed management improvements.

- Additional goals will be undertaken, as tangible improvements are made in this initial set of initiatives....¹

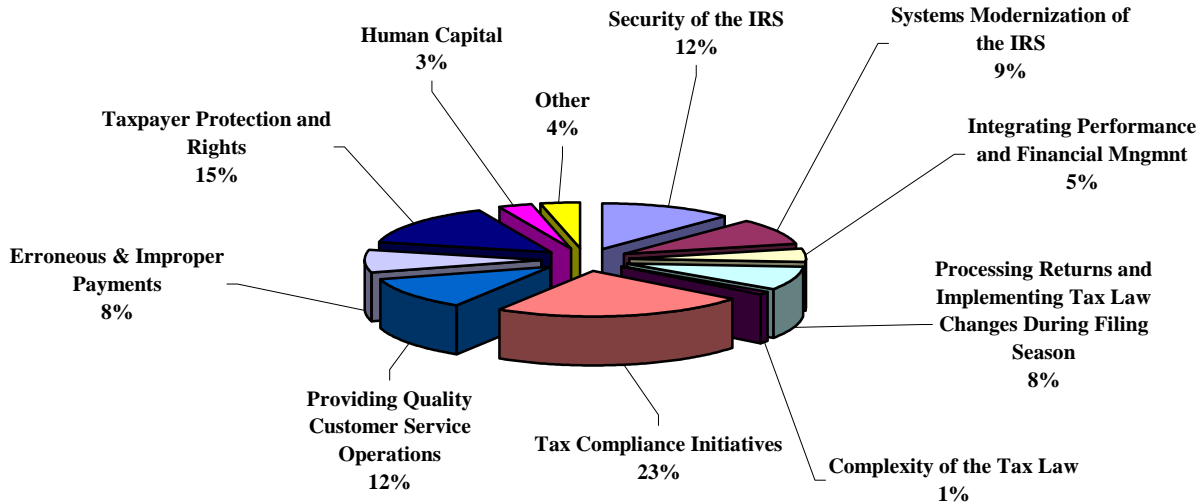
The five Government-wide goals included in *The President's Management Agenda for Improving Government Performance* are:

- ❖ Strategic Management of Human Capital.
- ❖ Competitive Sourcing.
- ❖ Improved Financial Performance.
- ❖ Expanded Electronic Government.
- ❖ Budget and Performance Integration.

¹ *The President's Management Agenda, Fiscal Year 2002*;
http://www.whitehouse.gov/omb/budintegration/pma_index.html.

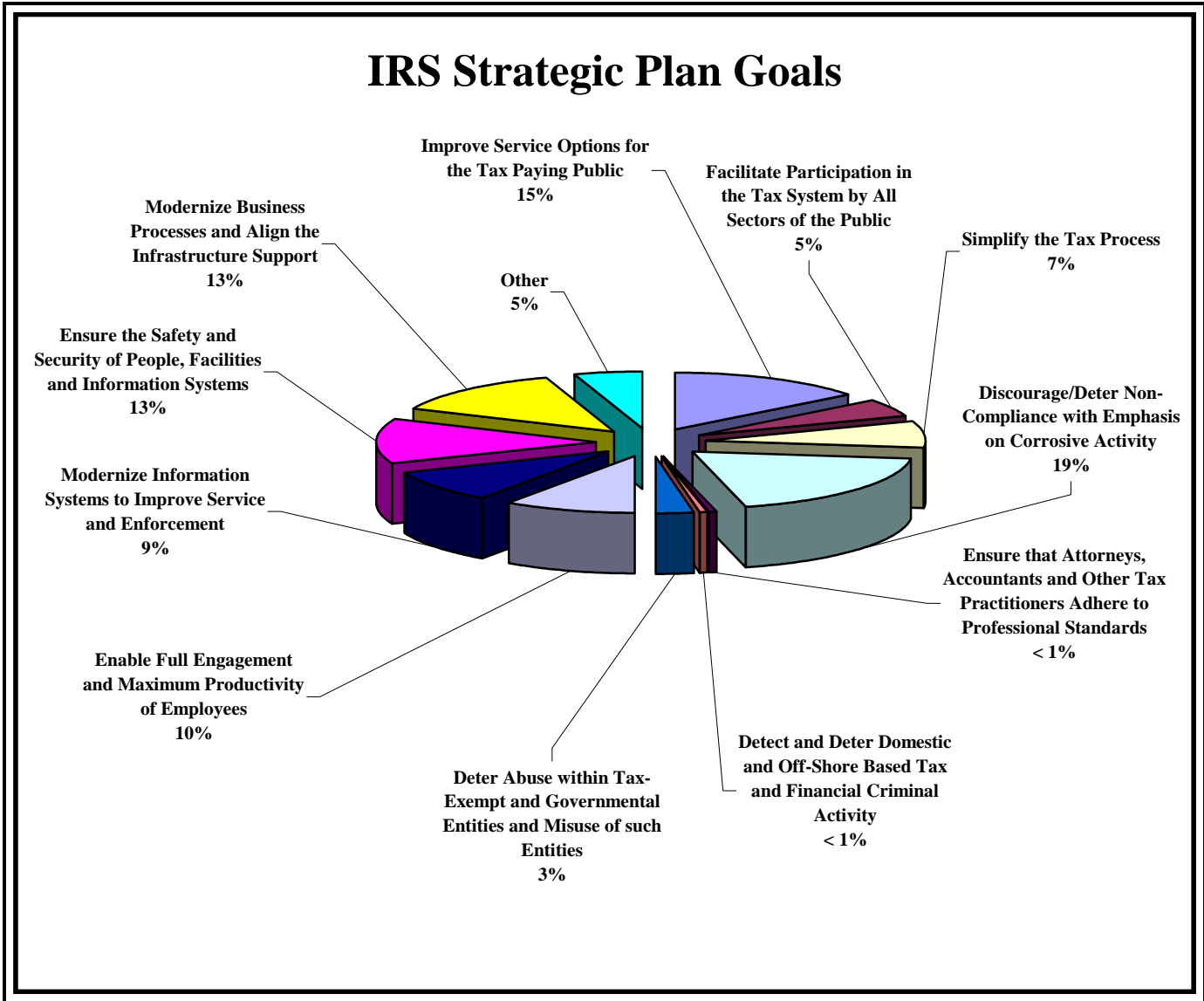
**OFFICE OF AUDIT'S FISCAL YEAR 2005
STAFF DAY ALLOCATION BY
MAJOR CHALLENGES FACING INTERNAL REVENUE SERVICE
MANAGEMENT**

Major Challenges Facing IRS Management



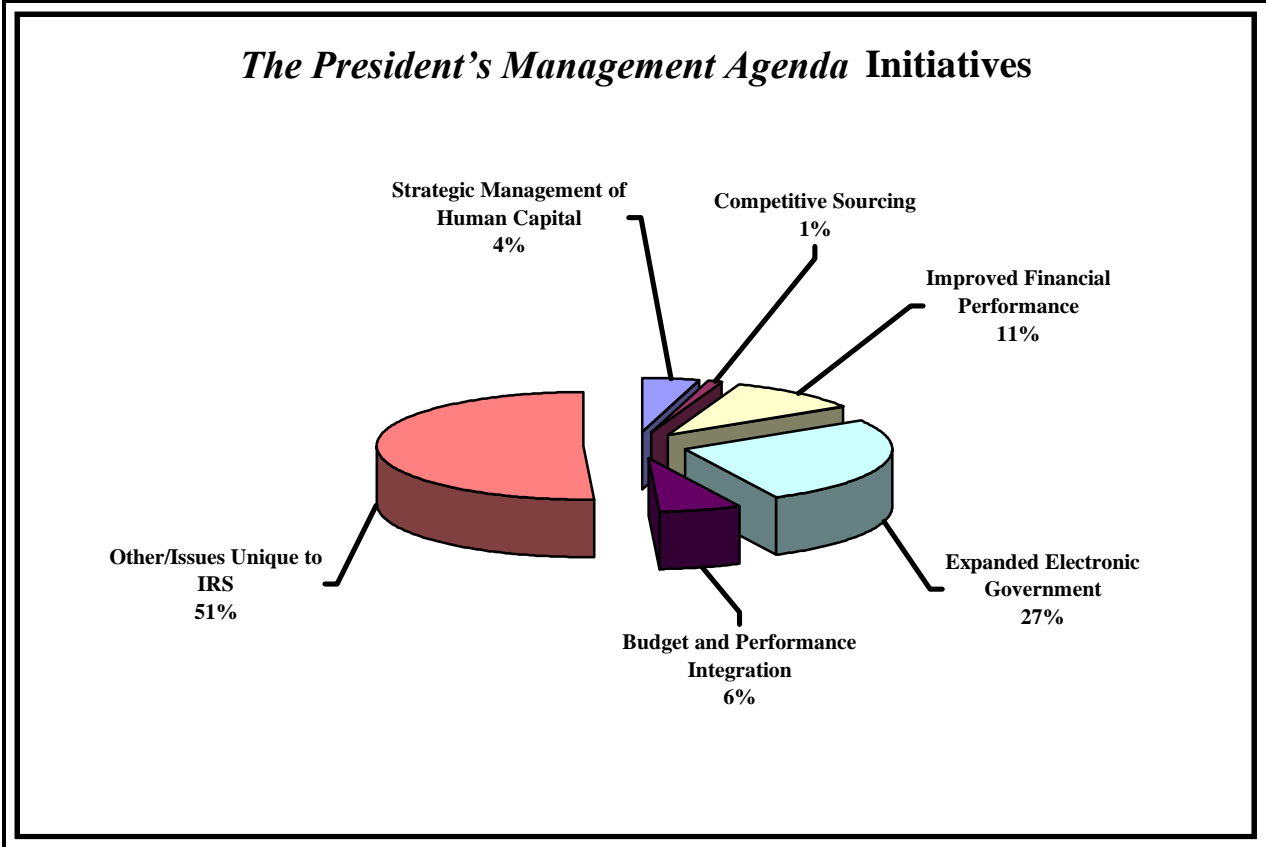
Note: Some audits relate to more than one major challenge area. In addition, Fiscal Year (FY) 2005 staff days are included for audits that were started in FY 2004 with planned completion dates in FY 2005.

**OFFICE OF AUDIT'S FISCAL YEAR 2005
STAFF DAY ALLOCATION BY
INTERNAL REVENUE SERVICE STRATEGIC PLAN GOALS**



Note: Some audits relate to more than one strategy area. In addition, Fiscal Year (FY) 2005 staff days are included for audits that were started in FY 2004 with planned completion dates in FY 2005.

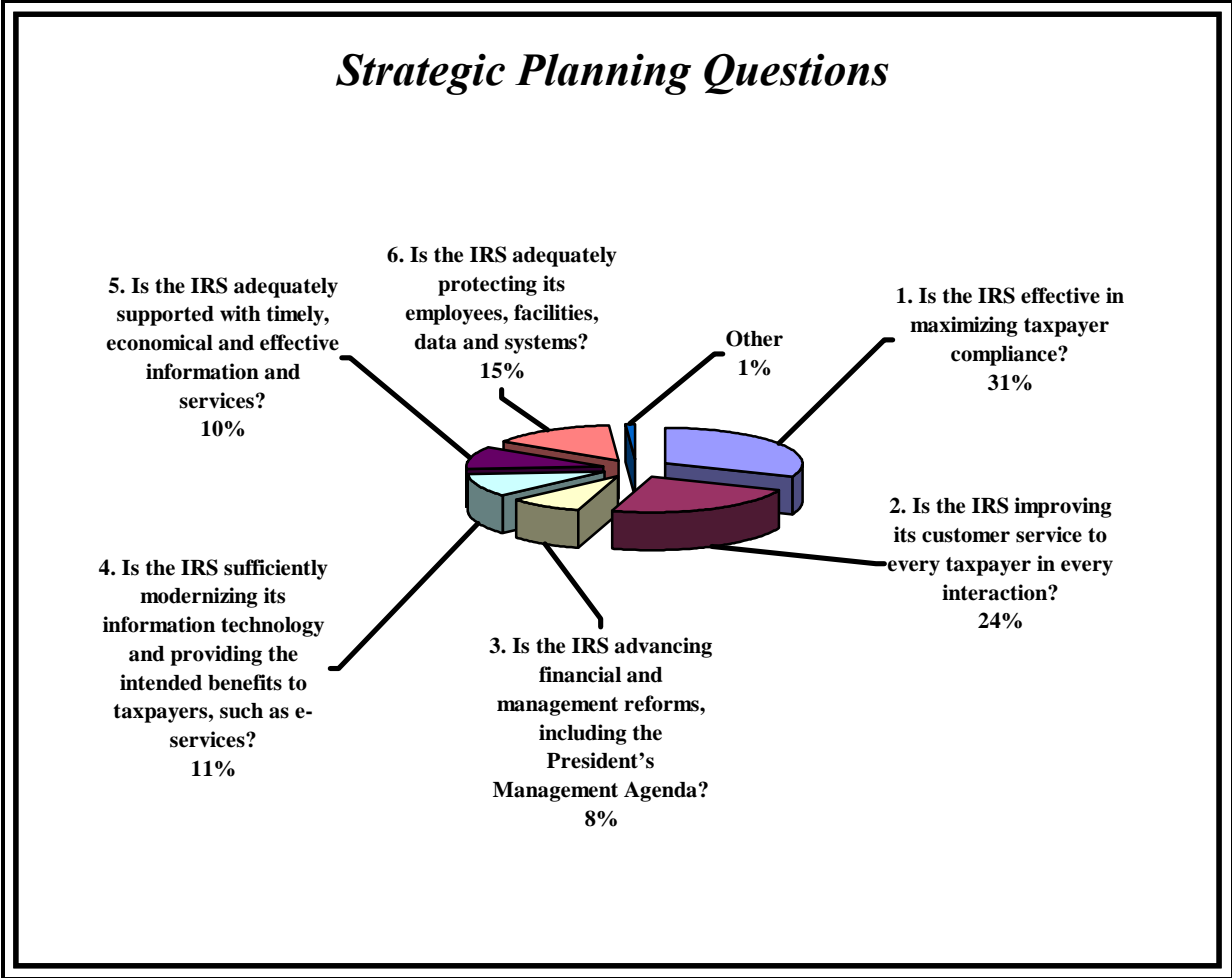
**OFFICE OF AUDIT'S FISCAL YEAR 2005
STAFF DAY ALLOCATION BY
THE PRESIDENT'S MANAGEMENT AGENDA INITIATIVES¹**



Note: Fiscal Year (FY) 2005 staff days are included for audits that were started in FY 2004 with planned completion dates in FY 2005.

¹ Fiscal Year 2005 audits have been categorized, as appropriate, under *The President's Management Agenda* initiatives. The audits that do not relate to *The President's Management Agenda* are categorized as "Other/Issues Unique to IRS."

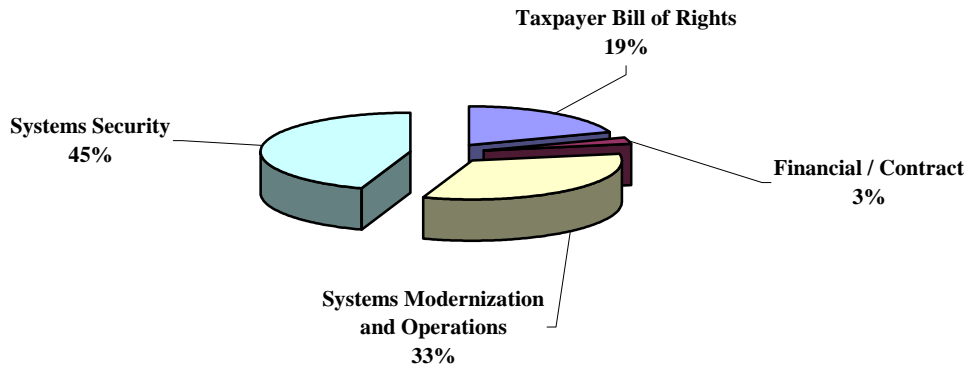
**OFFICE OF AUDIT'S FISCAL YEAR 2005
STAFF DAY ALLOCATION BY
STRATEGIC PLANNING QUESTIONS**



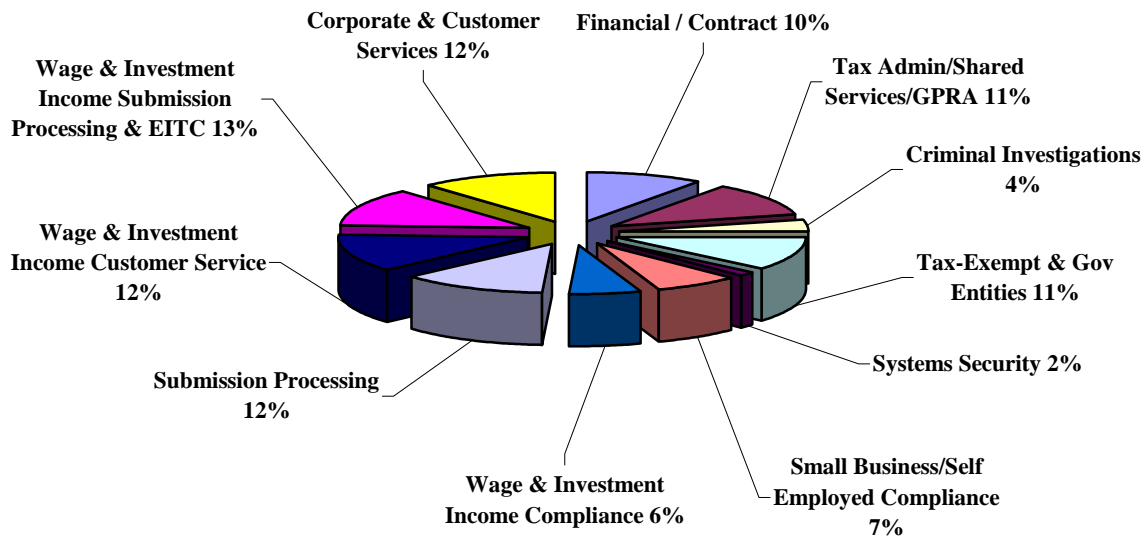
Note: Fiscal Year (FY) 2005 staff days are included for audits that were started in FY 2004 with planned completion dates in FY 2005.

**OFFICE OF AUDIT'S FISCAL YEAR 2005 STAFF DAY ALLOCATION BY
STATUTORY AND DISCRETIONARY AUDITS**

Statutory Coverage (27.9%)



Discretionary Coverage (72.1%)



Note: Fiscal Year (FY) 2005 staff days are included for audits that were started in FY 2004 with planned completion dates in FY 2005.

***LIST OF PLANNED AUDITS FOR FY 2005
INFORMATION SYSTEMS PROGRAMS***

Within the Information Systems Programs, most reviews are considered statutory because of the Internal Revenue Service's (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ requirement to report annually on the adequacy and security of the IRS technology. Audits are selected based on a risk-assessment process.

Cost/Schedule Estimation (Follow-up) (Statutory Audit)

Audit Objective: Determine whether corrective actions have been taken to improve the Business Systems Modernization (BSM) cost and schedule estimation system and associated processes.

Effectiveness of the Business Systems Modernization Challenges 48-Point Action Plan (Statutory Audit)

Audit Objective: Determine whether the IRS has effectively implemented the 48-point BSM Challenges Plan and that the problems identified in the independent studies have been addressed.

Annual Business Systems Modernization Assessment (Statutory Audit)

Audit Objective: Assess the progress of the BSM Program as required by the RRA 98.

Customer Account Data Engine – Release Deployment (Statutory Audit)

Audit Objective: Determine whether the Business Systems Modernization Office (BSMO) and its contractors are developing the current releases of the project using sound systems development practices.

Customer Account Data Engine – Business Rules (Statutory Audit)

Audit Objective: Determine whether the BSMO and its contractors are developing the current releases of the project using sound systems development practices.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

Modernized E-File (Statutory Audit)

Audit Objective: Determine whether the BSMO and its contractors are developing the current releases of the project using sound systems development practices.

Filing and Payment Compliance – Collection Contract Support (Statutory Audit)

Audit Objective: Determine whether the BSMO and its contractors are developing the current releases of the project using sound systems development practices.

Task Order Audit: Architecture & Integration Activities (Statutory Audit)

Audit Objective: Determine whether the IRS is receiving full value from the PRIME² contractor under the terms and conditions of the PRIME task orders.

Task Order Audit: Program Management (Statutory Audit)

Audit Objective: Determine whether the IRS is receiving full value from the PRIME contractor under the terms and conditions of the PRIME task orders.

Task Order Audit: Infrastructure Shared Services Activities (Statutory Audit)

Audit Objective: Determine whether the IRS is receiving full value from the PRIME contractor under the terms and conditions of the PRIME task orders.

Business Systems Modernization Testing Practices (Follow-up) (Statutory Audit)

Audit Objective: Determine whether BSM testing processes are conducted efficiently and effectively and are ensuring the testing of all system requirements.

Transition Management (Follow-up) (Statutory Audit)

Audit Objective: Determine whether the latest Transition Management guidance and direction are adequate for smoothly transitioning modernized systems from the contractor to the IRS support organization.

² 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.

Business Systems Development's Management and Use of Contractors (Statutory Audit)

Audit Objective: Determine whether the Business Systems Development (BSD) office has adequate policies and procedures to effectively manage its contract labor and related costs.

Business Systems Development's Configuration Management Processes (Follow-up) (Statutory Audit)

Audit Objective: Determine whether effective configuration management processes (to ensure proper control over computer hardware and software) have been implemented in the BSD organization.

Business Systems Development's Testing Processes (Statutory Audit)

Audit Objective: Determine whether BSD's testing resources (people, processes, and tools) are used efficiently and effectively to perform sufficient and timely testing.

Mainframe (Tier I) Computer Storage Management Practices (Statutory Audit)

Audit Objective: Assess the efficiency and effectiveness of the IRS' mainframe computer storage management practices.

Mid-Range (Tier II) Computer Storage Management Practices (Statutory Audit)

Audit Objective: Assess the efficiency and effectiveness of the IRS' mid-range computer storage management practices.

Desktop (Tier III) Computer Storage Management Practices (Statutory Audit)

Audit Objective: Assess the efficiency and effectiveness of the IRS' desktop computer storage management practices.

Business Systems Modernization Office Requirements Development and Management (Statutory Audit)

Audit Objective: Determine whether the BSMO has ensured proper identification of project level requirements for efficiently developing modernization projects that meet customer needs.

Business Systems Development's Requirements Management Process (Statutory Audit)

Audit Objective: Determine whether the BSD is performing requirements management activities that will result in the timely development of systems that meet customer needs.

Procurement of Information Technology Services Outside of Modernization and Information Technology Services (Statutory Audit)

Audit Objective: Assess the management controls over the procurement of information technology services outside of the Modernization and Information Technology Services organization.

Administration of Modernization Task Orders (Statutory Audit)

Audit Objective: Determine whether the IRS has established and is following adequate contract negotiation and contract management practices for the BSM Program.

Critical Infrastructure Protection Plans (Statutory Audit)

Audit Objective: Assess the IRS' progress in its efforts to protect critical assets and comply with Federal requirements.

Protection of Data Provided to Third Parties (Statutory Audit)

Audit Objective: Determine whether the data provided by the IRS to third parties is adequately protected and safeguarded.

Currency and Banking Reporting System Security Controls (Statutory Audit)

Audit Objective: Determine whether the IRS implemented adequate management, operational, and technical controls.

Compliance Research Information System Security Controls (Statutory Audit)

Audit Objective: Determine whether the IRS implemented adequate management, operational, and technical controls.

Contractor Access to the Maryland Computer Sciences Corporation Building (Statutory Audit)

Audit Objective: Determine whether contractors are complying with the IRS security requirements at the Maryland Computer Sciences Corporation Building.

Penetration Test (Statutory Audit)

Audit Objective: Determine whether the IRS is improving its controls to detect and prevent unauthorized accesses to the IRS' data and systems from inside the IRS firewalls.

Computer Security Incident Response Center (Statutory Audit)

Audit Objective: Determine whether the IRS has an effective Computer Security Incident Response Center.

Physical Security (Statutory Audit)

Audit Objective: Determine whether the IRS has effective physical security controls at its campuses and offices.

Common Operating Environment (Statutory Audit)

Audit Objective: Determine whether the IRS has adequately secured and deployed the common operating environment used on its end-user computers.

Federal Information Security Management Act (Statutory Audit)

Audit Objective: Provide an overall assessment of IRS security measures required by the Federal Information Security Management Act.

Authorization for Access on Internal Revenue Computer Systems and Applications (Statutory Audit)

Audit Objective: Assess the effectiveness of the IRS' controls over authorizing user access to its systems and applications.

Employee Susceptibility over Social Engineering (Statutory Audit)

Audit Objective: Determine whether employees are aware of their security responsibilities by emulating methods often used by hackers to gain sensitive information.

Transition to Active Directory (Statutory Audit)

Audit Objective: Determine whether the IRS is successfully deploying and adequately securing the Windows Active Directory network infrastructure.

Tivoli® Security and Inventory Control (Statutory Audit)

Audit Objective: Determine whether the security and inventory controls for the Tivoli® systems management software are effective.

Internet and E-Mail Usage (Statutory Audit)

Audit Objective: Determine whether employees are complying with the IRS personal use policy.

Capital Expenditures Program

Audit Objective: Determine the progress in implementing a capital planning and investment control process.

Management of Contracting Services

Audit Objective: Assess the effectiveness of management controls over contractor services.

**LIST OF PLANNED AUDITS FOR FY 2005
HEADQUARTERS OPERATIONS AND
EXEMPT ORGANIZATIONS PROGRAMS**

Two of the planned audits for the Headquarters Operations and Exempt Organizations Programs address statutory requirements related to the Internal Revenue Service's (IRS) financial statements and other financial reports. Another three are in response to the IRS Restructuring and Reform Act of 1998 (RRA 98)¹ statutory reporting requirements.

Defense Contract Audit Agency Contract Oversight (Statutory Review)

Audit Objective: Review and issue to the IRS reports prepared by the Defense Contract Audit Agency on IRS contracts.

***Federal Financial Management Improvement Act of 1996² Remediation Plan
(Statutory Review)***

Audit Objective: Determine if the IRS has met established target dates, and provided reasonable explanations when adjusting plan dates.

Assistance to Contract Fraud Investigations

Audit Objective: Assist the Office of Investigations in evaluating financial and operational information relating to allegations of criminal or civil misconduct in procurement activities.

Audits of Contractor Invoices – Various Contractors

Audit Objective: Determine if contractors billed the IRS accurately and according to contract terms and conditions.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² Pub. L. No. 104-208, 110 Stat. 3009, also known as the Brown Bill, requires that each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

Custodial Accounting Project Financial Requirements

Audit Objective: Determine if the IRS has adequately defined and incorporated Federal financial management requirements in the Custodial Accounting Project.

Health Care Tax Credit Administration

Audit Objective: Determine if controls are adequate to properly account for payments and deposits in the Health Care Tax Credit Program.

Integrated Financial System Post-Implementation

Audit Objective: Determine whether controls are adequate to ensure the accuracy and validity of financial data.

Federal Agency Employment Tax Delinquencies

Audit Objective: Determine if the IRS properly accounts for and resolves tax delinquencies incurred by Federal agencies.

Trends in Criminal Investigation Function Activities Fiscal Year 2000-2004

Audit Objective: Provide statistical and trend information and analysis of Criminal Investigation (CI) function activities.

Efficiency in Completing Investigations

Audit Objective: Determine the adequacy of management controls over case investigation processes and identify barriers to expedient case resolution.

E-Crimes Program

Audit Objective: Evaluate the controls over electronic data seized by the CI function and processes used to ensure timely results.

Investigations of Tax Exempt Charities

Audit Objective: Evaluate methods used by the CI function to successfully identify and prosecute charities that engage in illegal activities.

Fiscal Year 2004 Appeals Collection Due Process Cases (Statutory Review)

Audit Objective: Determine whether Appeals complies with the law when taxpayers exercise their right to appeal the filing of a lien or intent to levy.

Fiscal Year 2004 Freedom of Information Act Denials (Statutory Review)

Audit Objective: Determine whether the IRS improperly withheld information requested by taxpayers based on Freedom of Information Act provisions and Internal Revenue Code Section 6103 or by replying that responsive records did not exist.

Fiscal Year 2004 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 Act³.

Office of Research, Analysis, and Statistics

Audit Objective: Evaluate research outcomes and related costs.

Human Capital Performance Measurement System

Audit Objective: Determine whether the Human Capital Office has established and implemented an effective performance measurement system.

Employee Tax Compliance

Audit Objective: Determine if the scope and operation of the employee tax compliance program is adequate.

Recruitment and Hiring Support

Audit Objective: Evaluate the new Personnel Field Services strategy and role in assisting the business units with recruiting and hiring qualified personnel needed to meet their missions.

Training Delivery

Audit Objective: Assess the effectiveness of training delivery.

³ 15 U.S.C. §§ 1601 note, 1692-1692o (2000).

Electronic Learning Management System

Audit Objective: Evaluate whether the Electronic Learning Management System provides the IRS with necessary information to determine training costs and effectiveness.

Strategic Plan and Annual Performance Report

Audit Objective: Determine if the strategic plan and annual plan meet all requirements of the Government Performance and Results Act of 1993 (GPRA)⁴ and the Office of Management and Budget Circular Number A-11 and fully address the major challenges facing the IRS.

Practitioner Oversight

Audit Objective: Evaluate the Office of Professional Responsibility's process for disciplinary actions.

Taxpayer Advocate Resource Allocation

Audit Objective: Evaluate the Taxpayer Advocate resource and workload allocation.

Low Income Tax Clinic Program

Audit Objective: Determine whether the grant program is working as intended, and whether Low Income Tax Clinics are located in the most beneficial locations.

Appeals Independence

Audit Objective: Evaluate whether Appeals processes and procedures provide adequate independence from the IRS operating divisions.

Timeliness of Published Guidance

Audit Objective: Determine whether the Office of Chief Counsel has implemented a process that controls and documents tax issues from receipt to disposition.

End User Access System

Audit Objective: Determine the impact of delays in the implementation of the End User Access System to the Tax Exempt and Government Entities (TE/GE) Division.

⁴ 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.).

Tax Exempt Determination System Processing of Employee Plans Determination Letters

Audit Objective: Determine whether the Tax Exempt Determination System (TEDS) is achieving the purpose it was designed for, regarding systemic processing of Employee Plans determination letters.

Addressing Compliance Issues for Abusive Credit Counseling Agencies

Audit Objective: Assess the Exempt Organizations (EO) function's efforts to ensure credit counseling agencies are operating within the scope of their tax exempt status and have decreased abusive activities regarding credit counseling.

Exempt Organizations Compliance Unit

Audit Objective: Assess the EO Compliance Unit's efforts to improve compliance in the exempt organizations community through increasing the accuracy of return filings and educating customers.

Excessive Executive Compensation

Audit Objective: Assess the EO function's efforts to improve compliance with accurately reporting excess benefits on the Return of Organization Exempt From Income Tax (Form 990) information return.

Fraud and Financial Transactions Unit

Audit Objective: Assess the Fraud and Financial Transactions Unit's efforts to identify and appropriately address indicators of fraud or the inappropriate use of charitable assets for non-charitable purposes.

Statistical Review of Tax Exempt Bonds Enforcement Analysis

Audit Objective: Provide statistical information and trend analyses of the nationwide enforcement statistics for the Office of Tax Exempt Bonds.

The Office of Tax Exempt Bonds' Market Segment Compliance Programs

Audit Objective: Assess the Office of Tax Exempt Bonds' market segment compliance projects and their impact on improving voluntary compliance.

Indian Tribal Governments' Use of Compliance Checks

Audit Objective: Determine if the Office of Indian Tribal Governments' use of compliance checks are effectively focused to improve voluntary compliance.

Indian Tribal Governments' Tip Compliance

Audit Objective: Determine if the Office of Indian Tribal Governments' process used to conduct Tip Compliance Checks is effective in improving voluntary compliance within tribal gaming entities.

Federal, State, and Local Governments' Education and Outreach

Audit Objective: Determine whether Federal, State, and Local Governments' education and outreach efforts have effectively addressed noncompliance issues and assisted customers in complying with return filing requirements.

Tax Exempt/Government Entities Customer Account Services Accuracy of Responses

Audit Objective: Determine whether the TE/GE Division Customer Account Services function is providing accurate responses to customers' telephone and written inquiries.

Tax Exempt/Government Entities Customer Account Services Providing Quality Service to Customers

Audit Objective: Assess whether the TE/GE Division Customer Account Services function is providing quality (i.e., timely, accurate, and complete) customer service to TE/GE Division customers.

Tax Exempt/Government Entities Fraud and Abusive Tax Avoidance Transactions

Audit Objective: Determine the adequacy of TE/GE Division management's efforts to detect and deter fraudulent activities and abusive tax avoidance transactions within the TE/GE Division customer base.

Tax Exempt/Government Entities Division User Fee Payment Processing

Audit Objective: Determine the effectiveness of the TE/GE Division's oversight for ensuring timely processing and safeguarding of user fee payment information.

***LIST OF PLANNED AUDITS FOR FY 2005
WAGE AND INVESTMENT INCOME PROGRAMS***

Five of the planned audits for the Wage and Investment Income Programs are in response to the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ statutory reporting requirements.

Customer Service Capping Report

Audit Objective: Determine whether the Wage and Investment (W&I) Division has improved customer service to its individual taxpayers since Fiscal Year (FY) 2002.

Taxpayer Assistance Centers Customer Service Capping Report

Audit Objective: Determine whether the IRS has improved the quality of customer service provided in the Taxpayer Assistance Centers (TAC) for individual taxpayers since FY 2002.

Customer Service Delivery Model

Audit Objective: Determine whether the Service Delivery Model will help the IRS meet its goal of providing taxpayers with the ability to self-sufficiently resolve their needs and decrease the need for them to seek live assistance.

E-Help Desk

Audit Objective: Determine whether the IRS' E-Help Desk is effectively providing accurate customer service to its rapidly increasing customer base.

Electronic Tax Law Assistance (Follow-Up)

Audit Objective: Determine whether taxpayers receive quality service, including correct answers to their questions, when they use the Electronic Tax Law Assistance to obtain assistance with tax law questions.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

Field Assistance Embedded Quality Business Integration

Audit Objective: Determine if the Field Assistance Embedded Quality Business Integration is reliable and provides sufficient data to monitor the performance and control of services provided in TACs.

Maximizing Tax Law Assistance Through the WWW.IRS.gov Web Site

Audit Objective: Determine whether the IRS is maximizing its use of electronic channels to increase the efficiency in which it provides tax law assistance to taxpayers.

Taxpayer Assistance Centers Filing Season 2005

Audit Objective: Determine whether taxpayers receive quality service, including correct answers to their questions, when visiting the TACs to get answers to their tax law questions.

Tax Return Preparation at Taxpayer Assistance Centers (Follow-Up)

Audit Objective: Determine whether taxpayers receive quality service, including accurate tax returns, when visiting the TACs to have their tax returns prepared and filed.

Toll-Free Access Filing Season 2005

Audit Objective: Evaluate the customer service toll-free telephone access during the 2005 filing season.

Toll-Free Embedded Quality Measurement System

Audit Objective: Determine whether the Embedded Quality Measurement System is efficiently and effectively improving business results while building employee satisfaction through continual improvement opportunities for the W&I Division's Toll-Free Program.

Virtual Translation Office

Audit Objective: Determine whether the IRS has an effective process to translate and publish written documents to assist limited English proficiency taxpayers in understanding and meeting their tax responsibilities.

Tax Return Preparation at Volunteer Income Tax Assistance Sites (Follow-Up)

Audit Objective: Determine whether taxpayers receive quality service, including the accurate preparation of their tax returns, when visiting the Volunteer Income Tax Assistance sites to have tax returns prepared.

Field Assistance Embedded Quality Measurement System

Audit Objective: Determine whether the Embedded Quality Measurement System is efficiently and effectively improving business results while building employee satisfaction through continual improvement opportunities for the W&I Division's Field Assistance Program.

Identity Theft

Audit Objective: Determine if the IRS has an effective process to ensure victims of identity theft are made whole and their accounts correctly restored with minimal taxpayer burden.

2005 Filing Season Implementation

Audit Objective: Evaluate whether the IRS timely and accurately processed individual tax returns during the 2005 filing season.

Customer Account Data Engine

Audit Objective: Determine whether Customer Account Data Engine (CADE), Release 1, timely and accurately processed the Income Tax Return for Single and Joint Filers with No Dependents (Form 1040EZ) returns.

Evaluating the Internal Revenue Service's Ability to Use Additional Return Information to Improve Compliance During Processing

Audit Objective: Determine whether there is additional information available on Electronic Filing and paper tax returns that could be captured during processing in order to deter compliance problems.

Implementation of Tax Law Changes into Return Processing

Audit Objective: Determine if IRS accurately updated tax publications and computer programming related to tax law changes affecting Individual tax returns.

Processing of Amended Individual Tax Returns

Audit Objective: Assess whether Individual amended tax returns are processed timely and accurately.

Processing of Earned Income Tax Credit Cases in the Automated Underreporter System

Audit Objective: Determine the accuracy and effectiveness of Earned Income Tax Credit (EITC) cases worked in Automated Underreporter (AUR) (part of the EITC 2004 Proof of Concept (POC) Test).

Implementing Lessons Learned from 2004 Test Results into 2005 of Earned Income Tax Credit Proof of Concept Testing

Audit Objective: Evaluate how well the EITC Program Office has implemented recommendations and results from 2004 POC tests into 2005 tests.

Earned Income Tax Credit Administration (Follow-Up)

Audit Objective: Follow up on a prior report to determine how well IRS has implemented recommendations.

Advanced Earned Income Credit on Electronically Filed Returns

Audit Objective: Ensure that the Advanced Earned Income Credit claimed on *e-filed* returns is supported by attached Wage and Tax Statement (Form W-2) information.

Processing the Mortgage Interest Credit

Audit Objective: Determine the accuracy of Mortgage Interest Credits claimed on Individual tax returns.

Erroneous Refund Process

Audit Objective: Identify reasons for erroneous refunds (i.e., excessive withholding, bad checks, etc.) and evaluate controls over the refund process.

Individual Accounts with Unresolved Frozen Credits

Audit Objective: Identify old accounts with unresolved credits to determine why they are still on the account and what processes the IRS has for identifying and clearing frozen credits.

Duplicate Use of Taxpayer Identification Numbers to Obtain Tax Benefits

Audit Objective: Determine the adequacy of controls over individuals using the social security number of another taxpayer to file a return or claim the taxpayer as a dependent on a tax return, and surface ways to detect identity theft, validate procedures used to correct accounts, and provide alternatives for recouping losses.

Automated Underreporter Telephone Assistance

Audit Objective: Evaluate the service provided taxpayers through AUR Compliance Telephone Operations.

Innocent Spouse

Audit Objective: Evaluate the effectiveness of controls over account adjustments when Innocent Spouse cases are closed.

Federal Payment Levy Program

Audit Objective: Evaluate whether the Federal Payment Levy Program policies provide a balance between the equitable application and enforcement of tax law and the prevention of taxpayer burden.

Installment Agreement Accounts List

Audit Objective: Evaluate whether the process for monitoring defaulted installment agreements ensures a balance between enforcement and service.

Taxpayer Assistance Centers Compliance

Audit Objective: Evaluate whether Compliance issues are effectively resolved through the TACs.

Improper Payments Information Act of 2002

Audit Objectives: Evaluate how effective the Improper Payments Information Act of 2002 (IPIA)² process is in reducing erroneous payments.

Wage and Investment Division Compliance Function Program Planning and Measures

Audit Objective: Evaluate prior audit results to identify trends on whether the Compliance functions were strategically planned with outcome measures to meet their goals and mission.

Restrictions on the Use of Enforcement Statistics (Statutory Review)

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

Taxpayer Designations – Illegal Tax Protester and Nonfiler Designations (Statutory Review)

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

Assessment Statute Extensions (Statutory Review)

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

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 and 26 United States Code (U.S.C.) § 6103(e)(8).

Restrictions on Directly Contacting Taxpayers (Statutory Review)

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

² Pub. L. No. 107-300, 116 Stat. 2350 (2002)

***LIST OF PLANNED AUDITS FOR FY 2005
SMALL BUSINESS AND CORPORATE PROGRAMS***

Three of the planned audits for the Small Business and Corporate Programs are in response to the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ statutory reporting requirements.

Seizures (Statutory Review)

Audit Objective: Determine whether seizures conducted by the IRS comply with Internal Revenue Code (IRC) procedures and its own internal guidelines.

Levies (Statutory Review)

Audit Objective: Determine whether the IRS complied with IRC procedures for conducting levies.

Liens (Statutory Review)

Audit Objective: Determine whether the IRS complied with IRC procedures when filing Federal Tax Liens.

Analysis of Queue and Shelved Cases

Audit Objective: Analyze the types of cases that the IRS Collection functions are unable to work.

Compliance Statistical Trends

Audit Objective: Provide statistical information requested by the IRS Oversight Board and trend analyses of that information.

Overall Evaluation of Offer in Compromise Program

Audit Objective: Evaluate the overall value of the Offer in Compromise (OIC) Program, based on prior audit work and a cost benefit analysis.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

Collection Contract Support Program

Audit Objective: Evaluate the efforts taken by the IRS to ensure that controls are in place before collection cases are sent to Collection contractors.

Examination's Report Generation Software

Audit Objective: Determine whether the Report Generation Software meets examiner's needs for electronically generating the Examination function's assessment report provided to taxpayers.

The National Research Project Pilot – Phase II

Audit Objective: Analyze potential problem issues identified during the National Research Project (NRP) pilot, and assess whether corrective actions were addressed before the Phase II was implemented.

The Fraud Referral Specialist Program

Audit Objective: Determine whether the Fraud Referral Specialists are effective in coordinating fraud issues and whether examiners refer potential fraud cases when appropriate.

Offer in Compromise – User Fees

Audit Objective: Determine if the implementation of the OIC user fee has effectively reduced the OIC workload without impeding on taxpayer rights; and determine if the IRS has established adequate internal controls over the receipt, return, deposit, and refund, if necessary, of OIC user fees.

Selection of Corporate Returns for Examination

Audit Objective: Determine whether Corporate returns are selected to meet the strategies established by the Small Business/Self-Employed (SB/SE) Division.

Penalty Abatements in the Collection Field Function

Audit Objective: Determine whether the Collection Field Function (Cff) is effectively and consistently abating penalties based on reasonable cause.

Collection Field Function In-Business Trust Fund Accounts

Audit Objective: Determine whether the SB/SE CFf is effectively using the collection tools available when working delinquent in-business trust fund accounts.

Implementation of Risk Assessment/Materiality

Audit Objective: Determine whether these assessments are being performed and whether there is a correlation between performing the assessments and tax adjustments.

Process Analysis for Examination of Flow-Through Entities

Audit Objective: Determine whether there are best practices for examining flow-through entities.

Analysis of the Administration of Select Penalties in the Large and Mid-Size Business Division

Audit Objective: Determine whether Large and Mid-Size Business (LMSB) examiners are properly considering mandatory penalty consideration on substantially understated income.

Analysis of Cycle Times for Mutual Agreement Procedures Case Resolution

Audit Objective: Determine whether the Mutual Agreement Procedure process has improved cycle times for resolving double taxation cases.

The Prefiling Closing Agreement Process

Audit Objective: Determine whether the Government's interests are being properly protected in the prefiling agreement process.

Analysis of Efforts to Combat Son of BOSS²

Audit Objective: Determine the success of the IRS Amnesty Program and what actions have been taken with identified noncooperative taxpayers.

² An abusive tax shelter that is being marketed and sold and is similar in design to the so-called Bond and Option Sales Strategy, or BOSS tax shelter. This new scheme uses a series of contrived steps (in this case involving interests in a partnership) to generate artificial tax losses designed to offset income from other transactions.

Evaluation of Abusive Tax Scheme Program

Audit Objective: Determine the progress the IRS has made in identifying abusive schemes and whether the efforts have resulted in an efficient and effective use of resources.

Analysis of Net Operating Loss Deductions by Small Business/Self-Employed Taxpayers

Audit Objective: Determine whether the IRS has an effective system to validate Net Operating Loss deductions.

Effectiveness of Backup Withholding Program for Mismatched Information Documents

Audit Objective: Determine whether the IRS is effectively using the back-up withholding process to increase tax compliance.

Implementation of the Centralized Insolvency Unit

Audit Objective: Determine whether the IRS was effective in managing the centralization of the Insolvency Unit and the effects of any problems encountered.

Evaluation of Examination Closing Process

Audit Objective: Determine whether the Examination Closing Process is effective in reducing taxpayer burden and promoting the interests of the Government.

Effect of Multiple Users of Social Security Numbers on Tax Administration and Compliance Programs

Audit Objective: Determine the effect of multiple users of a Social Security Number on Tax Administration.

The Effectiveness of the NonFiler Strategy

Audit Objective: Determine whether the IRS has effectively implemented the initiatives of the Nonfiler Strategy.

Limited Issue Focus Examinations

Audit Objective: Determine the impact the Limited Issue Focus Examinations Process has on the outcomes of LMSB Division examinations.

Revenue Agent Performance Management

Audit Objective: Determine whether the performance management system is effective in linking the IRS' mission, strategic goals, and balanced measures to team manager and examiner performance in the LMSB Division's Industry Case Program.

Automated 6020(B) Program

Audit Objective: Determine whether the IRS is effectively using the Automated 6020(b) Program to improve filing compliance among business taxpayers.

Tax Compliance by Nonwage Earners

Audit Objective: Assess the SB/SE Division's efforts to deal effectively with payment non-compliance among nonwage earners.

Self-Employment Tax Law Fairness

Audit Objective: Determine the effect that the existing tax laws, tax regulations, and IRS policies and procedures for assessing and collecting self-employment taxes have on timely revenue receipts, processing costs, taxpayer compliance, taxpayer burden, and fairness for all taxpayers.

Internal Revenue Service Foreign Banking and Financial Account Reports

Audit Objective: Determine the opportunities that exist for implementing compliance strategies utilizing foreign source income data and the Foreign Bank and Financial Account Report data.

Large Dollar Excess Collection Payments

Audit Objective: Determine the financial effect and taxpayer burden on credit balance accounts that are not resolved before the IRS transfers large dollar payments into the IRS' Excess Collections accounts.

Security of Remittances at the Ogden Submission Processing Center

Evaluate the physical and internal controls in the remittance processing areas of the Ogden Submission Processing Center to determine whether taxpayer remittances, taxpayer data, and remittance processing employees are properly safeguarded.

Math Error Usage and Potential Enhancements

Audit Objective: Determine if the improvements made to the math error process improved notice effectiveness in communicating the changes that have been made to the taxpayer's account, and determine if the taxpayer's responses are handled properly to ensure the taxpayer's rights are protected.

Tax Amnesty

Audit Objective: Assess the potential benefits and risks of implementing a broad Federal Tax Amnesty Program and/or evaluate the IRS' use of the State Amnesty Program Tax information.

Effectiveness of the Small Business/Self-Employed Taxpayer Education and Communication Function in Accomplishing its Mission

Audit Objective: Determine what methods the Taxpayer Education and Communication (TEC) function uses to measure its effectiveness on taxpayer compliance and the outcomes resulting from its work.

Evaluation of the Potential Uses for Business Information Returns

Audit Objective: Determine whether the IRS is effectively using the financial information it receives via information returns for business taxpayers.

Matching of Schedules K-1 for Unprocessable Subchapter S Corporation, Partnership, and Trust Returns

Audit Objective: Determine whether the IRS effectively ensures that only Partner's Share of Income, Credits, Deductions, etc. (Form 1065 Schedule K-1), Shareholder's Share of Income, Credits, Deductions, etc. (Form 1120S Schedule K-1), and Beneficiary's Share of Income, Deductions, Credits, etc. (Form 1041 Schedule K-1) for the appropriate entities are included in the Schedule K-1 matching file; and determine whether the Request for Information Services erroneously added Schedules K-1 to the matching file for the unprocessable forms.

Recent Changes to Schedule K-1 Matching Program

Audit Objective: Determine whether the IRS' steps to improve the Schedule K-1 matching program were effectively: (1) reducing unnecessary notices, (2) ensuring the accuracy of notices, (3) increasing the rate of assessments made on AUR Program cases related to Schedule K-1 income; (4) reducing the percentage of IRS errors when processing paper Schedules K-1, and (5) increasing the number of Schedules K-1 input electronically.

Account and Filing Services Provided to Large and Mid-Size Business Taxpayers

Audit Objective: Determine whether SB/SE Service Center Representatives have the ability, expertise, and training to address problems with complex LMSB customer accounts.

Management of Joint Committee Cases Inventory

Audit Objective: Determine whether Joint Committee cases are being identified, processed timely, and efficiently and effectively reviewed.

Reporting Compliance on Amended Returns

Audit Objective: Determine whether the procedures for processing amended returns allow taxpayers to avoid necessary controls that would normally identify questionable deductions or preparers.

Internal Revenue Service's Strategy for Employment Tax Reporting Compliance

Audit Objective: Determine whether the IRS has an effective strategy to measure employment tax reporting compliance.

Fuel Tax Evasion/Information Reporting System

Audit Objective: Evaluate the IRS' efforts to ensure Motor Fuel Excise Tax compliance.

Combined Annual Wage Reporting Program Review

Audit Objective: Determine whether the IRS is effectively working IRS/ Combined Annual Wage Reporting cases and whether the return on investment from these cases warrants expansion of the program.

Use of Form 4137 to Collect Federal Insurance Contribution Act Taxes on Tips and Wages

Audit Objective: Determine if taxpayers are properly using Social Security and Medicare Tax on Unreported Tip Income (Form 4137) to report Federal Insurance Contribution Act taxes.

Deposit Penalties

Audit Objective: Determine whether current studies and workgroups are effectively addressing Federal Tax Deposit (FTD) compliance, whether there are areas of the FTD penalty program that can be enhanced to improve compliance or reduce taxpayer burden, and whether recent changes have been properly evaluated regarding their effectiveness in improving FTD compliance.

Duplicate Credits for Estimates or Subsequent Payments

Audit Objective: Assess whether the IRS has sufficient controls in place to identify, during processing, original tax returns with line items causing duplicate credits; and, determine the volume of taxpayers making these erroneous claims, the reasons for these claims, and any changes needed in IRS education, processing, or computer programming to help prevent the claims and/or any associated erroneous refunds.

Procedures for Processing Requests for Employer Identification Numbers

Audit Objective: Evaluate the IRS' controls over the various methods and procedures used for the issuance of Employer Identification Numbers (EIN); and identify additional steps the IRS could take to ensure the integrity of the Federal tax system by using the EIN application and issuance process to increase the compliance of the SB/SE community.

Internal Revenue Service's Efforts to Assist Start-Up Businesses

Audit Objective: Evaluate the effectiveness of current efforts by SB/SE Division's TEC organization to assist start-up businesses.

Businesses Classified by Principal Business Activity

Audit Objective: Determine whether the IRS is identifying taxpayer's Principal Business Activity codes at the earliest opportunity.

Fraudulent Earned Income Tax Credit Claims Involving Sole Proprietorships

Audit Objective: Determine the extent of improper Earned Income Tax Credit claims involving taxpayers filing a U.S. Individual Income Tax Return (Form 1040) with a Profit or Loss from Business (Schedule C).

**LIST OF PLANNED AUDITS FOR FISCAL YEAR 2005
BY MANAGEMENT CHALLENGES, INTERNAL REVENUE SERVICE GOALS
AND OBJECTIVES, PRESIDENTIAL INITIATIVES, AND
STRATEGIC PLANNING QUESTIONS**

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
	See Appendix XV for definitions of the codes.				
Information Systems Programs					
<i>Cost/Schedule Estimation (Follow-up)</i>	S	c02	g3-2	EG	i04
<i>Effectiveness of the Business Systems Modernization Challenges 48-Point Action Plan</i>	S	c02	g3-2	EG	i04
<i>Annual Business Systems Modernization Assessment</i>	S	c02	g3-2	EG	i04
<i>Customer Account Data Engine – Release Deployment</i>	S	c02	g3-2	EG	i04
<i>Customer Account Data Engine – Business Rules</i>	S	c02	g3-2	EG	i04
<i>Modernized E-File</i>	S	c02	g3-2	EG	i04
<i>Filing and Payment Compliance – Collection Contract Support</i>	S	c02	g3-2	EG	i04
<i>Task Order Audit: Architecture and Integration Activities</i>	S	c02	g3-2	EG	i04
<i>Task Order Audit: Program Management</i>	S	c02	g3-2	EG	i04
<i>Task Order Audit: Infrastructure Shared Services Activities</i>	S	c02	g3-2	EG	i04
<i>Business Systems Modernization Testing Practices (Follow-up)</i>	S	c02	g3-2	EG	i04
<i>Transition Management (Follow-up)</i>	S	c02	g3-2	EG	i04

Treasury Inspector General for Tax Administration - Office of Audit

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
See Appendix XV for definitions of the codes.					
<i>Business Systems Development's Management and Use of Contractors</i>	S	c02	g3-2	EG	i04
<i>Business Systems Development's Configuration Management Processes (Follow-up)</i>	S	c02	g3-2	EG	i04
<i>Business Systems Development's Testing Processes</i>	S	c02	g3-2	EG	i04
<i>Mainframe (Tier I) Computer Storage Management Practices</i>	S	c02	g3-1	EG	i05
<i>Mid-Range (Tier II) Computer Storage Management Practices</i>	S	c02	g3-1	EG	i05
<i>Desktop (Tier III) Computer Storage Management Practices</i>	S	c02	g3-1	EG	i05
<i>Business Systems Modernization Office Requirements Development and Management</i>	S	c02	g3-2	EG	i04
<i>Business Systems Development's Requirements Management Process</i>	S	c02	g3-2	EG	i05
<i>Procurement of Information Technology Services Outside of Modernization and Information Technology Services</i>	S	c02	g3-2	EG	i05
<i>Administration of Modernization Task Orders</i>	S	c02	g3-2	EG	i04
<i>Critical Infrastructure Protection Plans</i>	S	c01	g3-3	EG	i06
<i>Protection of Data Provided to Third Parties</i>	S	c01	g3-3	EG	i06
<i>Currency and Banking Reporting System Security Controls</i>	S	c01	g3-3	EG	i06
<i>Compliance Research Information System Security Controls</i>	S	c01	g3-3	EG	i06
<i>Contractor Access to the Maryland Computer Sciences Corporation Building</i>	S	c01	g3-3	EG	i06
<i>Penetration Test</i>	S	c01	g3-3	EG	i06
<i>Computer Security Incident Response Center</i>	S	c01	g3-3	EG	i06
<i>Physical Security</i>	S	c01	g3-3	EG	i06
<i>Common Operating Environment</i>	S	c01	g3-3	EG	i06

Treasury Inspector General for Tax Administration - Office of Audit

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
See Appendix XV for definitions of the codes.					
<i>Federal Information Security Management Act</i>	S	c01	g3-3	EG	i06
<i>Authorization for Access on Internal Revenue Computer Systems and Applications</i>	S	c01	g3-3	EG	i06
<i>Employee Susceptibility over Social Engineering</i>	S	c01	g3-3	EG	i06
<i>Transition to Active Directory</i>	S	c01	g3-3	EG	i06
<i>Tivoli® Security and Inventory Control</i>	S	c01	g3-3	EG	i06
<i>Internet and E-Mail Usage</i>	S	c01	g3-3	EG	i06
<i>Capital Expenditures Program</i>	D	c02	g3-1	EG	i05
<i>Management of Contracting Services</i>	D	c00	g3-1	CS	i05
Headquarters Operations and Exempt Organizations Programs					
<i>Defense Contract Audit Agency Contract Oversight</i>	S	c08	g-0	IM	i05
<i>Federal Financial Management Improvement Act of 1996 Remediation Plan</i>	S	c03	g3-1	IM	i03
<i>Assistance to Contract Fraud Investigations</i>	D	c08	g3-1	IM	i05
<i>Audits of Contractor Invoices – Various Contractors</i>	D	c08	g3-1	IM	i05
<i>Custodial Accounting Project Financial Requirements</i>	D	c03	g3-1	IM	i03
<i>Health Care Tax Credit Administration</i>	D	c08	g3-3	IM	i05
<i>Integrated Financial System Post-Implementation</i>	D	c03	g3-1	IM	i03
<i>Federal Agency Employment Tax Delinquencies</i>	D	c06	g2-1	IM	i01
<i>Trends in Criminal Investigation Function Activities Fiscal Year 2000-2004</i>	D	c06	g2-1	NE	i01
<i>Efficiency in Completing Investigations</i>	D	c06	g2-1	NE	i01
<i>E-Crimes Program</i>	D	c06	g2-1	NE	i01
<i>Investigations of Tax Exempt Charities</i>	D	c06	g2-4	NE	i01
<i>Fiscal Year 2004 Appeals Collection Due Process Cases</i>	S	c09	g1-1	NE	i02
<i>Fiscal Year 2004 Freedom of Information Act Denials</i>	S	c09	g1-1	NE	i06

Treasury Inspector General for Tax Administration - Office of Audit

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
See Appendix XV for definitions of the codes.					
<i>Fiscal Year 2004 Fair Debt Collection Practices Act Violations</i>	S	c09	g1-1	NE	i02
<i>Office of Research, Analysis, and Statistics</i>	D	c00	g3-1	NE	i05
<i>Human Capital Performance Measurement System</i>	D	c10	g3-4	HC	i03
<i>Employee Tax Compliance</i>	D	c00	g-0	HC	i01
<i>Recruitment and Hiring Support</i>	D	c10	g3-1	HC	i03
<i>Training Delivery</i>	D	c10	g3-1	HC	i03
<i>Electronic Learning Management System</i>	D	c10	g3-4	HC	i03
<i>Strategic Plan and Annual Performance Report</i>	D	c03	g3-1	BP	i03
<i>Practitioner Oversight</i>	D	c09	g2-2	NE	i01
<i>Taxpayer Advocate Resource Allocation</i>	D	c09	g1-1	HC	i03
<i>Low Income Tax Clinic Program</i>	D	c07	g1-1	NE	i02
<i>Appeals Independence</i>	D	c09	g1-1	NE	i02
<i>Timeliness of Published Guidance</i>	D	c05	g1-2	EG	i02
<i>Tax Exempt/Government Entity Determination System Processing of Employee Plans Determination Letters</i>	D	c02	g3-2	EG	i04
<i>End User Access System</i>	D	c04	g1-1	EG	i04
<i>Addressing Compliance Issues for Abusive Credit Counseling Agencies</i>	D	c06	g2-4	BP	i01
<i>Exempt Organizations Compliance Unit</i>	D	c06	g2-1	EG	i01
<i>Excessive Executive Compensation</i>	D	c06	g2-1	BP	i01
<i>Fraud and Financial Transactions Unit</i>	D	c06	g2-4	EG	i01
<i>Statistical Review of Tax Exempt Bonds Enforcement Analysis</i>	D	c06	g-0	NE	i01
<i>The Office of Tax Exempt Bonds' Market Segment Compliance Programs</i>	D	c06	g2-4	BP	i01
<i>Indian Tribal Governments Use of Compliance Checks</i>	D	c06	g1-2	BP	i01
<i>Indian Tribal Governments Tip Compliance</i>	D	c06	g1-2	BP	i01
<i>Federal, State, and Local Governments Education and Outreach</i>	D	c07	g2-1	BP	i02
<i>Tax Exempt/Government Entity Customer Account Services Accuracy of Responses</i>	D	c07	g1-1	BP	i02

Treasury Inspector General for Tax Administration - Office of Audit

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
See Appendix XV for definitions of the codes.					
<i>Tax Exempt/Government Entity Customer Account Services Providing Quality Service to Customers</i>	D	c07	g1-1	BP	i02
<i>Tax Exempt/Government Fraud and Abusive Tax Avoidance Transactions</i>	D	c06	g2-4	BP	i01
<i>Tax Exempt/Government Division User Fee Payment Processing</i>	D	c03	g1-1	IM	i03
Wage and Investment Income Programs					
<i>Customer Service Capping Report</i>	D	c07	g1-1	NE	i02
<i>Taxpayer Assistance Centers Customer Service Capping Report</i>	D	c07	g1-1	NE	i02
<i>Customer Service Delivery Model</i>	D	c07	g1-2	NE	i02
<i>E-Help Desk</i>	D	c07	g1-2 g3-2	EG	i02
<i>Electronic Tax Law Assistance (Follow-Up)</i>	D	c07	g1-2 g3-2	EG	i02
<i>Field Assistance Embedded Quality Business Integration</i>	D	c03 c07	g1-1	BP	i02 i03
<i>Maximizing Tax Law Assistance Through the WWW.IRS.gov Web Site</i>	D	c07	g3-2 g1-2	EG	i02 i04
<i>Taxpayer Assistance Centers Filing Season 2005</i>	D	c07	g1-1	NE	i02
<i>Tax Return Preparation at Taxpayer Assistance Centers (Follow-Up)</i>	D	c07	g1-1	NE	i03
<i>Toll-Free Access Filing Season 2005</i>	D	c07	g1-1	NE	i04
<i>Toll-Free Embedded Quality Measurement System</i>	D	c07	g1-1 g3-4	BP	i05
<i>Virtual Translation Office</i>	D	c07	g1-1	NE	i06 i05
<i>Tax Return Preparation at Volunteer Income Tax Assistance Sites (Follow-Up)</i>	D	c07	g1-1	NE	i02
<i>Field Assistance Embedded Quality Measurement System</i>	D	c03	g3-4	IM	i03
<i>Identity Theft</i>	D	c09	g1-1	NE	i02
<i>2005 Filing Season Implementation</i>	D	c04 c09	g1-3	NE	i02
<i>Customer Account Data Engine</i>	D	c04 c09	g1-3	NE	i02 i04
<i>Evaluating the Internal Revenue Service's Ability to Use Additional Return Information to Improve Compliance During Processing</i>	D	c04	g3-4 g2-1	NE	i01
<i>Implementation of Tax Law Changes into Return Processing</i>	D	c04 c09	g1-3	NE	i02

Treasury Inspector General for Tax Administration - Office of Audit

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
	See Appendix XV for definitions of the codes.				
<i>Processing of Amended Individual Tax Returns</i>	D	c04 c09	g1-3	NE	i02
<i>Processing of Earned Income Tax Credit Cases in the Automated Underreporter System</i>	D	c08	g1-3 g2-1	NE	i01 i02
<i>Implementing Lessons Learned from 2004 Test Results into 2005 of Earned Income Tax Credit Proof of Concept Testing</i>	D	c04 c08	g1-3 g2-1	NE	i01 i02
<i>Earned Income Tax Credit Administration</i>	D	c08 c09	g1-3 g2-1	NE	i01 i02
<i>Advanced Earned Income Credit on Electronically Filed Returns</i>	D	c04 c09	g1-3 g2-1	NE	i02
<i>Processing the Mortgage Interest Credit</i>	D	c04 c09	g1-3 g2-1	NE	i01 i02
<i>Erroneous Refund Process</i>	D	c04 c09	g1-3 g2-1	NE	i02
<i>Individual Accounts with Unresolved Frozen Credits</i>	D	c04 c09	g1-3 g2-1	NE	i02
<i>Duplicate Use of Taxpayer Identification Numbers to Obtain Tax Benefits</i>	D	c04	g2-1	NE	i01
<i>Automated Underreporter Telephone Assistance</i>	D	c07	g1-1	NE	i02
<i>Innocent Spouse</i>	D	c09	g1-1	NE	i02
<i>Federal Payment Levy Program</i>	D	c00	g-0	NE	i01
<i>Installment Agreement Accounts List</i>	D	c06	g2-1	NE	i01
<i>Taxpayer Assistance Centers Compliance</i>	D	c06	g2-1	NE	i01
<i>Improper Payment Information Act</i>	D	c08	g-0	IM	i03
<i>Wage and Investment Division Compliance Function Program Planning and Measures</i>	D	c03	g-0	BP	i03
<i>Restrictions on the Use of Enforcement Statistics</i>	S	c09	g-0	NE	i02
<i>Taxpayer Designations – Illegal Tax Protester and Nonfiler Designations</i>	S	c09	g-0	NE	i02
<i>Assessment Statute Extensions</i>	S	c09	g-0	NE	i02
<i>Disclosure of Collection Activities With Respect to Joint Returns</i>	S	c09	g-0	NE	i02

Treasury Inspector General for Tax Administration - Office of Audit

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
See Appendix XV for definitions of the codes.					
<i>Restrictions on Directly Contacting Taxpayers</i>	S	c09	g-0	NE	i02
Small Business and Corporate Programs					
<i>Seizures</i>	S	c09	g1-1	NE	i01
<i>Levies</i>	S	c09	g1-1	NE	i01
<i>Liens</i>	S	c09	g1-1	NE	i01
<i>Analysis of Queue and Shelved Cases</i>	D	c06	g2-1	NE	i01
<i>Compliance Statistical Trends</i>	D	c06	g2-1	NE	i01
<i>Overall Evaluation of Offer in Compromise Program</i>	D	c06 c09	g2-1	NE	i01
<i>Collection Contract Support Program</i>	D	c09 c06	g1-1	NE	i01
<i>Examination's Report Generation Software</i>	D	c06	g2-1	NE	i01
<i>The National Research Project Pilot – Phase II</i>	D	c06 c09	g2-1	NE	i01
<i>The Fraud Referral Specialist Program</i>	D	c06	g2-1	NE	i01
<i>Offer in Compromise – User Fees</i>	D	c06	g2-1	NE	i01
<i>Selection of Corporate Returns for Examination</i>	D	c00	g2-1	NE	i01
<i>Penalty Abatements in the Collection Field Function</i>	D	c06	g2-1	NE	i01
<i>Collection Field Function In-Business Trust Fund Accounts</i>	D	c06	g2-1	NE	i01
<i>Implementation of Risk Assessment/ Materiality</i>	D	c06	g3-4	NE	i01
<i>Process Analysis for Examination of Flow-Through Entities</i>	D	c06	g3-4	NE	i01
<i>Analysis of the Administration of Select Penalties in the Large and Mid-Size Business Division</i>	D	c06	g3-4	NE	i01
<i>Analysis of Cycle Times for Mutual Agreement Procedures Case Resolution</i>	D	c06	g3-4	NE	i01
<i>The Prefiling Closing Agreement Process</i>	D	c06	g3-4	NE	i01
<i>Analysis of Efforts to Combat Son of BOSS</i>	D	c06	g2-1 g2-3	NE	i01

Treasury Inspector General for Tax Administration - Office of Audit

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
	See Appendix XV for definitions of the codes.				
<i>Evaluation of Abusive Tax Scheme Program</i>	D	c06	g2-1 g2-3	NE	i01
<i>Analysis of Net Operating Loss Deductions by Small Business/Self-Employed Taxpayers</i>	D	c06	g3-4	NE	i01
<i>Effectiveness of Backup Withholding Program for Mismatched Information Documents</i>	D	c06	g1-2 g3-4	NE	i01
<i>Implementation of the Centralized Insolvency Unit</i>	D	c06	g3-4	NE	i01
<i>Evaluation of Examination Closing Process</i>	D	c06	g1-1 g3-4	NE	i01
<i>Effect of Multiple Users of Social Security Numbers on Tax Administration and Compliance Programs</i>	D	c06	g1-2	NE	i01
<i>The Effectiveness of the NonFiler Strategy</i>	D	c06	g2-1	NE	i01
<i>Limited Issue Focus Examinations</i>	D	c06	g3-4	NE	i01
<i>Revenue Agent Performance Management</i>	D	c06	g3-1	HC	i01
<i>Automated 6020(B) Program</i>	D	c06	g1-2	NE	i01
<i>Tax Compliance by Nonwage Earners</i>	D	c06	g3-4	NE	i01
<i>Self-Employment Tax Law Fairness</i>	D	c05	G3-4	NE	i00
<i>Internal Revenue Service Foreign Banking and Financial Account Reports</i>	D	c06	g2-1	NE	i01
<i>Large Dollar Excess Collection Payments</i>	D	c09	g1-1	NE	i02
<i>Security of Remittances at the Ogden Submission Processing Center</i>	D	c01	g3-3	NE	i06
<i>Math Error Usage and Potential Enhancements</i>	D	c06	g3-4	NE	i01
<i>Tax Amnesty</i>	D	c06	g2-1	NE	i01
<i>Effectiveness of the Small Business/Self-Employed Taxpayer Education and Communication Function in Accomplishing its Mission</i>	D	c06	g3-4	NE	i01
<i>Evaluation of the Potential Uses for Business Information Returns</i>	D	c06	g2-1	NE	i01
<i>Matching of Schedules K-1 for Unprocessable Subchapter S Corporation, Partnership, and Trust Returns</i>	D	c06	g2-1	NE	i02
<i>Recent Changes to Schedule K-1 Matching Program</i>	D	c04	g2-1	NE	i02

Treasury Inspector General for Tax Administration - Office of Audit

PLANNED AUDITS	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGES	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVES	STRATEGIC PLANNING QUESTIONS
	See Appendix XV for definitions of the codes.				
<i>Account and Filing Services Provided to Large and Mid-Size Business Taxpayers</i>	D	c07	g1-1	NE	i02
<i>Management of Joint Committee Cases Inventory</i>	D	c07	g1-3	NE	i02
<i>Reporting Compliance on Amended Returns</i>	D	c06	g2-1	EG	i01
<i>Internal Revenue Service's Strategy for Employment Tax Reporting Compliance</i>	D	c06	g2-1	NE	i01
<i>Fuel Tax Evasion/Information Reporting System</i>	D	c06	g2-1	EG	i01
<i>Combined Annual Wage Reporting Program Review</i>	D	c06	g3-4	NE	i01
<i>Use of Form 4137 to Collect Federal Insurance Contribution Act Taxes on Tips and Wages</i>	D	c05	g1-2	NE	i01
<i>Deposit Penalties</i>	D	c06	g3-4	NE	i02
<i>Duplicate Credits for Estimates or Subsequent Payments</i>	D	c08	g3-4	NE	i02
<i>Procedures for Processing Requests for Employer Identification Numbers</i>	D	c07	g3-4	EG	i01
<i>Internal Revenue Service's Efforts to Assist Start-Up Businesses</i>	D	c06	g1-2	NE	i01
<i>Businesses Classified by Principal Business Activity</i>	D	c00	g3-4	NE	i02
<i>Fraudulent Earned Income Tax Credit Claims Involving Sole Proprietorships</i>	D	c06	g1-2	NE	i01

**CODES USED IN THE LIST OF PLANNED AUDITS FOR FISCAL YEAR 2005
BY MANAGEMENT CHALLENGES, INTERNAL REVENUE SERVICE GOALS AND OBJECTIVES,
PRESIDENTIAL INITIATIVES, AND STRATEGIC PLANNING QUESTIONS**

MANAGEMENT CHALLENGES		IRS GOALS AND OBJECTIVES		PRESIDENTIAL INITIATIVES		STRATEGIC PLANNING QUESTIONS	
ISSUE	CODE	ISSUE	CODE	ISSUE	CODE	ISSUE	CODE
Security of the IRS	c01	Goal 1: Improve Taxpayer Service		Strategic Management of Human Capital	HC	Is the IRS effective in maximizing taxpayer compliance?	i01
Systems Modernization of the IRS	c02	Improve Service Options for the Tax Paying Public	g1-1	Competitive Sourcing	CS	Is the IRS improving its customer service to every taxpayer in every interaction?	i02
Integrating Performance and Financial Management	c03	Facilitate Participation in the Tax System by All Sectors of the Public	g1-2	Improved Financial Management	IM	Is the IRS advancing financial and management reforms, including <i>The President's Management Agenda</i> ?	i03
Processing Returns and Implementing Tax Law Changes During Filing Season	c04	Simplify the Tax Process	g1-3	Expanded Electronic Government	EG	Is the IRS sufficiently modernizing its information technology and providing the intended benefits to taxpayers, such as e-services?	i04
Complexity of the Tax Law	c05	Goal 2: Enhance Enforcement of the Tax Law		Budget and Performance Integration	BP	Is the IRS adequately supported with timely, economical and effective information and services?	i05
Tax Compliance Initiatives	c06	Discourage and Deter Non-Compliance with Emphasis on Corrosive Activity by Corporations, High-Income Individual Taxpayers and Other Contributors to the Tax Gap	g2-1	Other/Issues Unique to IRS	NE	Is the IRS adequately protecting its employees, facilities, data and systems?	i06
Providing Quality Customer Service Operations	c07	Ensure that Attorneys, Accountants and Other Tax Practitioners Adhere to Professional Standards and Follow the Law	g2-2			Other	i00

Treasury Inspector General for Tax Administration - Office of Audit

MANAGEMENT CHALLENGES		IRS GOALS AND OBJECTIVES		PRESIDENTIAL INITIATIVES		STRATEGIC PLANNING QUESTIONS	
ISSUE	CODE	ISSUE	CODE	ISSUE	CODE	ISSUE	CODE
Erroneous and Improper Payments	c08	Detect and Deter Domestic and Off-Shore Based Tax and Financial Criminal Activity	g2-3				
Taxpayer Protection and Rights	c09	Deter Abuse within Tax-Exempt and Governmental Entities and Misuse of such Entities by Third Parties for Tax Avoidance or Other Unintended Purposes	g2-4				
Human Capital	c10	Goal 3: Modernize the IRS through Its People, Processes and Technology					
Other	c00	Increase Organizational Capacity to Enable Full Engagement and Maximum Productivity of Employees	g3-1				
		Modernize Information Systems to Improve Service and Enforcement	g3-2				
		Ensure the Safety and Security of People, Facilities and Information Systems	g3-3				
		Modernize Business Processes and Align the Infrastructure Support to Maximize Resources Devoted to Front-line Operations	g3-4				
		Other	g-0				