

**The Internal Revenue Service Needs to
Strengthen Its Operating Controls for the
Tax-Exempt Bond Program**

March 2000

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax return/Return information



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 10, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink that reads "Pamela J. Gardiner". The signature is written in a cursive style.

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Needs to
Strengthen Its Operating Controls for the Tax-Exempt Bond
Program

This report presents the results of our follow-up review of the Internal Revenue Service's (IRS) Tax-Exempt Bond Program. Our objective was to assess specific corrective actions taken by the IRS in response to a prior audit report titled, *Review of the Tax-Exempt Bond Program* (Reference Number 062604, dated March 22, 1996).

In summary, we found that the IRS has implemented some corrective actions to improve the control environment. However, additional actions are needed to strengthen the operating controls over the processing of tax-exempt bond returns and remittances, and to ensure that program transitional issues are resolved. Further, we believe the need to fully implement an automated system for the processing of tax-exempt bond returns continues to represent a Federal Managers' Financial Integrity Act material weakness.

We recommended that the IRS input all Forms 8038-T into the designated automated system, periodically monitor the various bond return information systems to promptly resolve any concerns that may impact processing, and follow all shipment procedures including the preparation of specific documentation of returns. We also recommend that the IRS revise tax-exempt bond preparation instructions to include the correct address where bond returns should be filed, record late-filed bond returns on the Masterfile and promptly address and resolve these late-filed returns with taxpayers, and process all incoming bond cases selected for audit on the Audit Information Management System before revenue agents start their audits.

The Commissioner, Tax Exempt and Government Entities Division, and the Assistant Commissioner, Forms and Submission Processing agreed to the recommendations presented in the draft report. The full text of management's response is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Executive Summary

The Internal Revenue Service (IRS) Inspection Service (now TIGTA¹) Report titled, *Review of the Tax-Exempt Bond Program* (Reference Number 062604, dated March 22, 1996), recommended the IRS increase the effectiveness in administering its Tax-Exempt Bond Program. It was also reported that a multi-functional approach was needed to increase the overall effectiveness of the IRS' efforts to implement and manage a strategy for long-term success of the Program. At a minimum, this solution would require a concerted effort between the Employee Plans and Exempt Organizations, IRS Chief Counsel, Submission Processing and Information Systems functions. The audit report also noted that prior General Accounting Office recommendations concerning oversight, direction, staffing and training had not been fully resolved, due in part, to a lack of corporate commitment to the effort. As a result of these conditions, the IRS reported the lack of an automated processing system for the Tax-Exempt Bond Program as a Federal Managers' Financial Integrity Act of 1982 (FMFIA), 31 U. S.C. §§ 1105-1106, 1113, and 3512 (1994) material weakness in 1996.

Most of the tax-exempt bond returns required to be filed with the IRS involve information reporting only. However, when investment decisions result in arbitrage², the issuers are required to report this activity to the IRS on an Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate return (Form 8038-T)³ and include any associated payments related to the earned interest that exceeded the arbitrage requirements. Between October 1998 and July 1999, the IRS processed approximately 1,045 of these returns in which receipts for arbitrage payments totaled \$186 million.

The objectives of this follow-up audit were to review specific corrective actions taken as a result of prior audit recommendations related to the establishment of an information return processing system and oversight mechanism for the Tax-Exempt Bond Program, and to review any related corrective actions taken that may have strengthened overall controls concerning the Program.

¹ The Treasury Inspector General for Tax Administration

² Bond proceeds invested in securities at higher interest rates resulting in profit to the issuers.

³ Form 8038-T is used to report any associated payments related to earned interest that exceeds the arbitrage requirements. This bond return is due to be filed five years after the bond issuance date.

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Results

The IRS has implemented some corrective actions from the prior audit report related to the control environment. However, further actions are needed to improve automated and manual systems for controlling Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate (Form 8038-T) bond returns, administer an effective transition of the Tax-Exempt Bond Program to its new processing site (the Ogden Service Center (OSC)), and control and track bond return examinations on the Audit Information Management System (AIMS).⁴ We believe the issue of not fully implementing an automated processing system, due to the lack of effective processing controls, continues to represent a FMFIA material weakness.

Some Actions Were Taken to Improve the Tax-Exempt Bond Program

The IRS has taken some actions to improve the administration of the Tax-Exempt Bond Program. For example, the IRS has established a nationwide enforcement program, the Bond Focus Group, a detailed training curriculum on auditing techniques, and limited recording to the Masterfile⁵ system to control and process some tax-exempt bond returns. We believe these actions should result in needed improvements to the IRS' Tax-Exempt Bond Program when fully implemented.

Automated and Manual Systems for Controlling Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate Bond Returns Were Not Fully Implemented

The IRS did not effectively implement corrective actions to ensure that all tax-exempt bond returns were properly and timely controlled. The Philadelphia Service Center (PSC) management did not adequately document the shipment of current year Form 8038-T returns (1998) to the OSC, and the OSC did not record these returns in the Return Inventory Classification System (RICS)⁶ between January and May 1999. As a result, the IRS was unable to assess the effectiveness of whether returns were controlled and information was accurately recorded on the System.

⁴ The Audit Information Management System is an IRS computer system used to control, track, and report on tax and information return examinations.

⁵ The Masterfile is the IRS' database that stores various types of taxpayer account information. This database includes individual, business, employee plans and exempt organizations, and bond data.

⁶ The Return Inventory Classification System is one of Employee Plans and Exempt Organizations' (EP/EO) primary information systems, which has a database file for controlling bond return information.

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The Transition of the Tax-Exempt Bond Program to Its New Processing Site Was Not Effectively Administered

The IRS did not adequately resolve program transitional issues that resulted from the OSC taking control of the return processing operation for tax-exempt bonds. Specifically, the IRS did not always ensure that remittances attached to tax-exempt bond returns were timely deposited, and that shipment documents were properly completed for the massive transfer of bond returns from the PSC to the OSC. In addition, the IRS did not fully establish operating procedures to prevent the delayed processing of potentially late-filed bond returns. Unless these issues are promptly resolved, there is an increased risk that bond returns, including attached remittances, may be lost without detection, and that taxpayer burden will be increased as a result of delayed processing.

Bond Return Examinations Were Not Always Controlled or Tracked on the Automated Information Management System

The IRS did not ensure that tax-exempt bond returns under examination were always controlled and tracked on the AIMS. Our analysis of 30 tax-exempt bond cases under examination indicated that 7 cases (23 percent) were not entered on the AIMS, as required. Unless bond cases are controlled and tracked on the AIMS, the IRS will not have an effective automated source to gather and analyze management information data to evaluate examination results and measure the Tax-Exempt Bond Program's performance and accomplishments.

Summary of Recommendations

To ensure that the IRS effectively manages the Tax-Exempt Bond Program, we recommended that the IRS input all Forms 8038-T into the RICS, periodically monitor the various bond return information systems to promptly resolve any concerns that may impact processing, and follow all shipment procedures including the preparation of specific documentation of returns transferred to the OSC. We also recommended that the IRS revise tax-exempt bond preparation instructions to include the correct address where bond returns should be filed, record late-filed bond returns on the Masterfile and promptly address and resolve these late-filed returns with taxpayers, and process all incoming bond cases selected for audit on the AIMS before revenue agents start their audits.

Management's Response:

IRS management agreed to the recommendations presented in the draft report. Further, management indicated that until the Masterfile is upgraded to process tax-exempt bond returns, the Tax-Exempt Bond Program will continue to be a FMFIA material weakness. Management's complete response to the draft report is included as Appendix V.

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Objectives and Scope

This review was initiated to follow-up on recommendations of a previously issued IRS Inspection Service (now TIGTA) Report titled, Review of the Tax-Exempt Bond Program.

This review was initiated to follow-up on recommendations cited in the Internal Revenue Service (IRS) Inspection Service (now TIGTA)¹ Report titled, *Review of the Tax-Exempt Bond Program* (Reference Number 062604, dated March 22, 1996). The objectives of this follow-up audit were to review selected corrective actions taken as a result of prior audit recommendations related to the establishment of an information return processing system and oversight mechanism for the Tax-Exempt Bond Program, and to review any other related corrective actions taken by the Employee Plans and Exempt Organizations (EP/EO) management to strengthened controls over the Program in general.

Specifically, we assessed whether corrective actions, resulting from the prior audit report, contributed to strengthening the operating controls and managerial oversight of the Program. We also assessed the effectiveness of the systems used to process tax-exempt bond returns to determine whether the existing Federal Managers' Financial Integrity Act of 1982 (FMFIA), 31 U.S.C. §§ 1105-1106, 1113, and 3512 (1994), material weakness, reported as a result of our prior audit, has been resolved. Specific corrective actions reviewed related to:

- ~~///~~ The recording of tax-exempt bond returns on the Masterfile.²
- ~~///~~ Implementing procedures for service center receipt and control of tax-exempt bond returns.
- ~~///~~ Establishing a National Office Bond Branch to monitor program activities.

¹ The Treasury Inspector General for Tax Administration.

² The Masterfile is the IRS' database that stores various types of taxpayer account information. This database includes individual, business, employee plans and exempt organizations, and bond data.

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- ~~///~~ Conducting post reviews of tax-exempt bond return examinations.
- ~~///~~ Using an automated system to order and process tax-exempt bond examinations.
- ~~///~~ Establishing a quarterly reporting system for tax-exempt bond examinations.

Because of processing inactivity, we were not able to assess the effectiveness of whether Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate (Form 8038-T) information was accurately recorded on a database file within the Return Inventory Classification System (RICS).³

We conducted this audit at the National Office, the Philadelphia Service Center (PSC) and the Ogden Service Center (OSC) from August 1998 to May 1999. This review was performed in accordance with *Government Auditing Standards*.

The detailed audit objectives, scope, and methodology of this review are presented in Appendix I. A listing of major contributors to this report is contained in Appendix II. A presentation of the outcome measures resulting from this report is shown in Appendix IV.

³ The Return Inventory Classification System is one of EP/EO's primary information systems, which has a database file for controlling bond return information.

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Background

The Tax Reform Act of 1986 required issuers of tax-exempt bonds to file information returns with the IRS after December 31, 1986. It also required that municipal bonds meet certain rules for the interest received by the bondholders to be exempt from federal income tax.

Bond proceeds may be invested in securities at higher interest rates, and result in profit to the issuers. This event is referred to as arbitrage. The Congress determined arbitrage profit must be rebated to the Government. As a result, the Tax Reform Act of 1986, Pub. L. No. 99-514, 100 Stat. 2085 required issuers of tax-exempt bonds to file information returns with the Internal Revenue Service (IRS) after December 31, 1986. It also requires that municipal bonds meet certain rules for the interest received by the bondholders to be exempt from federal income tax.

Issuers of new tax-exempt bonds are required to complete and file one of a series of information returns. These include Information Return for Tax Exempt Private Activity Bond Issues (Form 8038), Information Return for Tax Exempt Governmental Obligations (Form 8038-G), or Information Return for Small Tax-Exempt Governmental Bond Issues, Leases and Installment Sales (Form 8038-GC). When investment decisions result in arbitrage, the issuers are required to report this activity to the IRS on an Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate (Form 8038-T) and include any associated payments related to the earned interest that exceeded the arbitrage requirements. This bond return is due to be filed five years after the bond issuance date.

The EP/EO function is the primary IRS function responsible for the Tax-Exempt Bond Program. This office administers the enforcement program by establishing policies, objectives, and procedures. It also provides oversight by coordinating, compiling, and disseminating information among the field offices regarding compliance efforts and other Program activities.

There are other IRS functions that provide assistance to the Tax-Exempt Bond Program. The Office of the Associate Chief Counsel (Domestic) provides legal advice nationwide to the EP/EO and the District Counsel function on tax-exempt bond cases, prior and current case rulings, case settlement issues, and possible tax

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court action. The District Counsel function assists EP/EO field offices with conducting bond examinations, deciding case settlement and advising on tax court proceedings. This function also provides attorneys to represent the IRS' interests in tax court. The Submission Processing function is responsible for the actual processing of returns at the IRS service centers. The Information Systems function is responsible for the approval of the acquisition or release of all automated systems and services used by the IRS.

In January 1997, the IRS officially transferred the Program for processing Forms 8038, 8038-G, and 8038-GC returns from the PSC to the OSC. The responsibility to process Forms 8038-T was transferred to the OSC in June 1998. Forms 8038, 8038-G, and 8038-GC returns are to be recorded on the Masterfile for information purposes. Forms 8038-T are recorded on the RICS to capture remittance and account related information. If any tax-exempt bond return is selected for examination, it is also recorded on the Audit Information Management System (AIMS).⁴

From October 1998 through July 1999, the OSC reported that the IRS processed 1,045 Form 8038-T returns where approximately \$186 million in arbitrage receipts were collected.

Our March 22, 1996, audit report recommended that a multi-functional approach was needed to increase the overall effectiveness of the IRS' efforts to implement and manage a strategy for long-term success of the Program. At a minimum, this solution would require a concerted effort among the EP/EO, IRS Chief Counsel, Submission Processing and Information Systems. The audit report also noted that prior General Accounting Office (GAO) recommendations⁵ concerning oversight,

⁴ The Audit Information Management System is an IRS computer system used to control, track, and report tax and information return examinations.

⁵ *Tax Policy and Administration - Improvements for More Effective Tax-Exempt Bond Oversight* (Report Number GAO/GGD-93-104; Dated May 1993).

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direction, staffing and training had not been fully resolved due in part to a lack of corporate commitment to the effort.

Results

Though some actions have been taken, the IRS needs to strengthen its operating controls to ensure bond returns are effectively controlled and processed on the designated automated systems, and that program transitional issues are resolved.

The IRS has taken some corrective actions to address the concerns cited in the previous audit report that impact the control environment of the Tax-Exempt Bond Program. However, further attention is needed to:

- ~~✍~~ Improve automated and manual systems for controlling Form 8038-T bond returns.
- ~~✍~~ Effectively administer the transition of the Tax-Exempt Bond Program to its new processing site.
- ~~✍~~ Control and track bond return examinations on the AIMS.

Some Actions Were Taken to Improve the Tax-Exempt Bond Program

The IRS has taken some corrective actions to address the concerns cited in the previous audit report that impact the control environment for the Tax-Exempt Bond Program. For example, actions taken by previously reported issue areas were as follows:

The IRS has taken some corrective actions to establish an automated system to control tax-exempt bond returns, develop procedural guidance, and fully implement the Tax-Exempt Bond Program.

A mechanism for controlling and processing tax-exempt bond returns was established

Automated systems were adjusted or implemented to process tax-exempt bond returns. In January 1998, the Masterfile was adjusted to allow the recording of Forms 8038, 8038-G and 8038-GC returns. The OSC recorded a total of 95,223 bond returns on this system that will provide needed historical data the IRS can use to better administer the Program and to make sound management decisions. Prior to tax year 1997, the Statistics of Income function generated data tapes of bond return information from

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1986 to 1995, and stored the data on a database file within the RICS. In January 1999 a separate database file was also created on the RICS to process Form 8038-T returns.

Procedural guidance and program focus was developed or completed

A viable enforcement program and technical training program were developed. In addition, revised policies, procedures, guidance, and, long-term program strategies were established.

Efforts were coordinated among various IRS organizations to expand the automated processing of bond returns, and the Office of the Associate Chief Counsel (Domestic) has provided technical and legal advice on bond issues when needed.

The Bond Focus Group was established to conduct on-line assistance reviews of open bond examinations during periodic visits to each Key District Office (KDO); and, provide daily case assistance to revenue agents on an as needed basis, and address and resolve program or field operational issues. The Bond Focus Group is a multi-functional committee of National and Field Office employees from the EP/EO, and IRS Chief Counsel.

Full-time bond examination groups were established within two of the four designated KDOs to conduct bond audits. In addition, part-time resources were committed in the other two KDOs to conduct these audits. The EP/EO started conducting bond examinations in Fiscal Year 1994, and recent examination results have benefited the IRS. During October 1998 through April 1999, the bond examination groups initiated 327 audits, of which 34 have been completed. Of the completed audits, 23 resulted in agreed assessments totaling \$3,570,167.

As part of peer reviews, the effectiveness of each KDO's Tax-Exempt Bond Program activities were evaluated. We reviewed peer review reports completed for two (the Western and Southeast regions) of the four KDO's. We determined from these reports that appropriate evidence was

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gathered and analyzed to assess the KDO's program accomplishments and resource utilization.

Furthermore, these two reviews cited information on the KDO's program operations including training, resource allocation, and oversight activities. Both reports cited favorable comments for each KDO's managing of the Tax-Exempt Bond Program.

However, some concerns were raised regarding the need for increased full-time bond examiners in the other KDO's, and the need to streamline the approval process for closing agreements.

Case selection efforts have been expanded to better identify tax-exempt bond returns for examination. The EP/EO refined the scope of its initial mandatory audits after identifying more productive audit indicators for case selection, and developed a referral program that coordinates efforts among federal, state and local government agencies.

Implementation of the IRS' Tax-Exempt Bond Program has progressed

A specific transaction code was established for tracking tax-exempt bond returns on the Masterfile and the AIMS.

A quarterly reporting system was established to monitor the status of bond return examinations from inception to closure.

Bond examinations were only assigned to GS-13 revenue agents because of the complexity of the tax-exempt bond area. Currently, the IRS and the National Treasury Employees Union are gathering information on the grade level of cases closed during calendar year 1999 before developing final case grading procedures.

We believe these actions, when fully implemented, should result in needed improvements to the IRS' Tax-Exempt Bond Program.

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Automated and Manual Systems for Controlling Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate Bond Returns Were Not Fully Implemented

The IRS did not effectively implement corrective actions to ensure that all tax-exempt bond returns were properly and timely controlled.

The IRS did not effectively implement corrective actions to ensure that all tax-exempt bond returns were properly and timely controlled. The PSC management did not adequately document the shipment of current year returns (1998) to the OSC, and the OSC did not record these returns on the RICS database file between January and May 1999. As a result, the IRS was unable to assess the effectiveness of whether cases were controlled and information was accurately recorded on the system.

In October 1996, the PSC Revenue Accounting Branch started processing Form 8038-T tax-exempt bond returns on a stand alone system, while processing corresponding remittances on the Interim Revenue Accounting Control System ⁶ to track and reconcile remittance transactions. In June 1998, the OSC Revenue Accounting Branch assumed full control for the processing of tax-exempt bond returns. In January 1999, the RICS was operational in the OSC for the processing of Form 8038-T returns.

The OSC Revenue Accounting Branch did not record bond returns on the RICS from January through May 1999.

Though automated systems were available, the OSC was not always recording Forms 8038-T on the designated automated systems. Between July and December 1998, the OSC recorded only 192 (15 percent) of the 1,327 current year returns on the PSC developed stand alone system. Further, no returns were recorded on the RICS between January and May 1999.

National Office EP/EO and OSC Submission Processing management, responsible for monitoring tax-exempt bond activities, were not aware that the OSC was not processing Forms 8038-T on the RICS. The OSC decided not to process returns on the RICS until the

⁶ The Interim Revenue Accounting Control System is a fully automated system used by the IRS to provide accounting control for all revenue accounting transactions.

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The issue of not fully implementing an automated system for the processing of tax-exempt bond returns still represents a FMFIA material weakness.

Forms 8038-T transferred from the PSC did not contain required shipping documentation.

National Office provided an empty database file. It believed the integrity of the previously recorded data on the file provided was compromised in that it identified potential discrepancies with PSC recorded transactions.

Without fully implementing an automated system for the processing of tax-exempt bond returns, management cannot effectively validate the accuracy of return information, and provide a source of data to analyze program performance and accomplishments. Further, we believe this issue of not fully implementing an automated processing system, due to the lack of effective processing controls, continues to represent a FMFIA material weakness.

We also found that the PSC did not adequately document the shipment of current year (1998) returns to the OSC. When returns are transferred from one location to another, a Document Transmittal (Form 3210) should be prepared to include specific information concerning each return. When Form 8038-T returns involving payments are transferred, the sender should promptly deposit the funds and prepare a Schedule of Collection (Form 2221) and a Credit Transfer Voucher (Form 2158) in addition to Form 3210.

We selected a judgmental sample of 25 Form 8038-T returns on file (8 without remittances and 17 with remittances) for the 1998 tax year.⁷ We found that:

- ~~///~~ All eight returns without remittances did not include a Form 3210.
- ~~///~~ All 17 returns with remittances did include Form 2221, which reflected the originating location where the returns and/or corresponding remittances were filed.
- ~~///~~ All 17 of the returns with remittances did not include Form 2158 as required.

⁷ We assessed management's manual controls over Forms 8038-T since their automated processing of cases was suspended from January 1999 to May 1999.

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~~15~~ Fifteen returns with remittances did not include Forms 3210.

~~2~~ Two returns with remittances included Forms 3210; however, the forms reflected only generic comments.

This lack of documentation occurred because the PSC did not always follow established document shipping procedures. Further, the OSC Revenue Accounting Branch did not alert the PSC as to the extent of documentation required for it to properly account for the returns shipped. We also determined that the OSC Revenue Accounting Branch was not regularly involved with transferring the mass shipments of returns.

Not preparing all required return shipment documents increases the risk that the recipient cannot be assured that they received the complete inventory sent.

Recommendations

1. The IRS should ensure that Forms 8038-T are recorded on the RICS and that responsible personnel consistently monitor the processing of tax-exempt bond returns to promptly address any concerns that would inhibit the IRS from accomplishing its desired program objectives.

Management's Response:

OSC personnel have completed inputting all backlogged returns into the designated automated system and, on a quarterly basis, designated personnel will ensure that all returns are being input into the system. Management further commented that without implementation of an upgrade to the Masterfile, this area will continue to be a FMFIA material weakness.

2. The IRS should ensure that all shipment procedures are followed, including the preparation of specific documentation of returns transferred to the OSC.

Management's Response:

Management will send memoranda to both the Philadelphia and Ogden Service Centers re-emphasizing

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the proper procedures for the shipping and/or transferring of returns.

The Transition of the Tax-Exempt Bond Program to Its New Processing Site Was Not Effectively Administered

Service center management has not taken appropriate action to ensure that transitional issues were properly resolved.

Service center management did not take appropriate action to ensure that Tax-Exempt Bond Program transitional issues were fully resolved. As a result, the IRS did not adequately administer operational changes to ensure that the former processing site timely deposited remittances attached to bond returns, massive transfers of bond returns to the OSC were controlled, and complete guidance for processing late-filed bond returns was developed.

The former processing site did not always timely deposit remittances included with bond returns

Eighteen of the 98 remittances, totaling \$7.1 million, were deposited from 3 to 48 days after the remittances were received. Large dollar remittances are required to be deposited immediately or by the next business day.

As of August 1998, the PSC, as the former processing site, was still receiving bond returns with remittances. We reviewed 98 large remittances deposited at PSC that totaled \$25.6 million in tax-exempt bond payments. We found that 18 (18.4 percent) of the 98 remittances, totaling \$7.1 million, were deposited from 3 to 48 days after the remittances were received.

Three of these remittances, each of which was in excess of \$1 million, were deposited from five to nine days after receipt. Further, 1-----
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1----- As a result of not depositing the 18 remittances timely, the government lost an estimated \$7,767 in interest.

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If a location other than the OSC receives a Form 8038-T that includes large dollar remittances,⁸ the funds should be deposited immediately or no later than the next business day. The employee handling these deposits should complete the required journal and automated processing before shipping the return to the current processing site at the OSC.

This shipping process is necessary because the IRS has yet to completely revise the filing instructions for the Series 8038 forms showing the OSC as the designated filing site. As of May 1999, only one of the four Series 8038 form packages was revised to reflect the new OSC address for filing bond returns.

Not following established remittance deposit procedures, especially in cases where tax returns are submitted to a service center not responsible for their processing, increases the risk of lost or untimely deposited funds.

The IRS did not properly control the massive transfer of prior year bond returns to OSC

Approximately 77,000 bond returns were transferred from the PSC to the OSC during Fiscal Years 1998 and 1999. However, some shipments were received at the OSC without the proper shipment documents.

We observed that 23 boxes of bond returns that were recently delivered to the OSC had not been reviewed or reconciled. Our review of two boxes identified that the Document Transmittal did not reflect case specific information needed to account for each return. A Block and Selection Record (Form 1332), usually used to control batches of tax returns, was placed in each box. However, there were no instructions to explain the packaging method nor was any specific case information included for each return.

The PSC did not properly complete Form 3210 to reflect case specific information for recent return shipments to the OSC. It also did not ensure all remittances were removed and timely deposited from bond returns before shipment.

⁸ Remittance amounts of \$5,000 and over should be deposited within the next business day, while amounts of \$1 million and above should be deposited immediately.

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The OSC found four remittances attached to Forms 8038-T that were included in shipments from the PSC totaling \$852,233.

Additionally, the PSC did not always remove remittances from returns before shipping the returns to the OSC. The OSC found four checks in return shipments that totaled \$852,233 and promptly deposited 3 of the 4 checks. 1-----
1-----

The appropriate forms should always be prepared for the transfer of returns and remittances from one location to another to completely account for and control the shipment. By not following established procedures for processing incoming bond returns before and during shipment to the OSC, the IRS increases the risk that bond returns including attached remittances may be lost without detection. Further, there is an increased risk of taxpayer's burden to retain sufficient evidence of tax returns and payment receipts because of the IRS' increased risk of lost returns or remittances.

Recently revised procedures for processing bond returns at OSC do not include complete instructions for processing late-filed returns

The OSC Customer Service Division has not processed a total of 1,149 late-filed bond returns for over five months because it was awaiting instructions from the National Office.

The IRS' January 1999 service center procedures included revised instructions for the forwarding of potentially late-filed tax-exempt bond returns to the OSC Customer Service Division for processing. However, specific instructions were not included as to how these returns should be processed by the Division. As a result, the Division did not process the returns. The processing should involve possible correspondence with bond issuers to determine if a compliance issue exists. As of the end of April 1999, the inventory of unprocessed late-filed tax-exempt bond returns totaled 1,149. Further, although these returns were controlled

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on the Integrated Data Retrieval System,⁹ the returns were not posted on the Masterfile as required.

When tax return processing units identify a late-filed tax-exempt bond return, the units should ensure the return is posted to the Masterfile before it is sent to another service center location for taxpayer correspondence action. Depending upon the taxpayer's frequency of late-filed bond returns, service center personnel can ultimately taken action to revoke the taxpayer's tax-exemption status. Not following these procedures increases the risk that returns will be lost without detection. In addition, taxpayer burden and the quality of service to taxpayers are significantly impacted when the IRS delays the processing of tax returns.

Recommendations

3. Service center management should re-emphasize the need for employees to apply the proper procedures for the shipment of tax returns and the timely deposit of remittances. The IRS should also take prompt action to revise the tax-exempt bond form instructions to alert taxpayers of the correct address for filing returns.

Management's Response:

Management will send memoranda to both the Philadelphia and Ogden Service Centers re-emphasizing the use of proper procedures for shipping tax-exempt bond returns and for depositing remittances. In addition, all designated tax-exempt bond form instructions were revised to inform taxpayers of the correct address for filing returns.

4. The IRS should develop instructions for the processing of late-filed tax-exempt bond returns. These instructions should also require that late-filed

⁹ The Integrated Data Retrieval System is the IRS' computer system capable of retrieving or updating stored information; it works in conjunction with taxpayers' records.

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

returns be posted to the Masterfile before being forwarded for processing.

Management's Response:

Management confirmed that certain late-filed tax-exempt bond returns identified in this report have been posted to the Masterfile. Procedures will be written governing the processing of such returns, including guidance on the imposition of penalties. Once the Masterfile is upgraded to process all tax-exempt bond returns, it will be possible to post these returns upon receipt.

Bond Return Examinations Were Not Always Controlled or Tracked on the Automated Information Management System

Our analysis of 30 bond cases showed that 23 percent were not entered on the IRS' monitoring system as required.

Tax-exempt bond returns under examination were not always controlled or tracked on the AIMS, as required. We selected a judgmental sample of 30 of the 367 tax-exempt bond cases under examination as listed on the Quarterly Bond Audit Report ending September 1998. Of the 30 sample cases, 7 (23 percent) were not listed on the AIMS.

Group managers are required to ensure that all incoming bond cases for examination are entered on the AIMS before cases are assigned to revenue agents. However, revenue agents were permitted to initiate tax-exempt bond audits without first recording the cases on the AIMS if they experienced computer rejection problems. These agents also were allowed to deviate from the initial establishment of bond cases on the AIMS if they were unable to verify the accuracy of the taxpayer's identification number.

Unless bond cases under examination are controlled and tracked on the AIMS, EP/EO management will not have an effective automated monitoring system for tracking the audit trail of bond examinations from inception to closures, or be able to gather and analyze data to evaluate examination results and measure the Tax-

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

Exempt Bond Program's performance and accomplishments.

Recommendation

5. The IRS should ensure that all incoming tax-exempt bond cases selected for examination are entered on the AIMS before revenue agents start their audits.

Management's Response:

Management will issue a memorandum to reinforce the proper procedures for establishing tax-exempt bond returns on the Non-Masterfile before commencing audits. Management also planned to discuss this memorandum at the February 2000 Tax-Exempt Bond Conference. Once a Request for Information Services is implemented to upgrade the AIMS, agents will be able to order as well as establish bond cases on this system before starting examinations. Management will continue to monitor and resolve discrepancies identified from reconciling the tax-exempt bond quarterly examination reports to AIMS establishment records.

Conclusion

In summary, the IRS has not addressed all corrective actions from the prior audit report to effectively manage the Tax-Exempt Bond Program. Specifically, the IRS needs to strengthen its operating controls to ensure tax-exempt bond returns are controlled and processed on the designated automated systems and that program transitional issues are resolved. We believe the issue of not fully implementing an automated processing system, due to the lack of effective processing controls, continues to represent a FMFIA material weakness. Unless corrective actions are effectively implemented, the IRS cannot rely on its automated or manual systems to account for all incoming tax-exempt bond returns, ensure all remittances are timely deposited, or that sufficient information exists to effectively manage the Tax-Exempt Bond Program.

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

Appendix I

Detailed Objectives, Scope, and Methodology

The overall objectives of this follow-up audit were to review selected corrective actions taken as a result of prior audit recommendations related to the establishment of an information return processing system and oversight mechanism for the Tax-Exempt Bond Program, and to review any other related corrective actions taken by the Employee Plans and Exempt Organizations (EP/EO) management to strengthened controls over the program in general. Specifically, we:

- I. Determined whether the system used to process Series 8038¹ returns was effective in controlling returns that have been submitted to the Internal Revenue Service (IRS), and capturing data necessary for EP/EO enforcement efforts.
 - A. Reviewed procedures issued for processing Series 8038 returns and determined if detailed instructions provided procedures for:
 1. Proper receipt and control of forms submitted to the service center.
 2. Processing of the forms.
 3. Processing remittances from 8038-T returns and ensuring that the payments are posted and promptly deposited.
 - B. Conducted a walk-through of Series 8038 processing activities to observe how returns were processed by tracing transactions from initial receipt through closure and final storage. Also, identified and evaluated the processes for ensuring the accuracy of data entry and the posting of information.
 - C. Interviewed Ogden Service Center (OSC) personnel to determine the effectiveness of the automated system and whether they have identified any systemic problems that would impact full implementation of the system.

¹ Series 8038 returns include Information Return for Tax Exempt Private Activity Bond Issues (Form 8038), Information Return for Tax Exempt Governmental Obligations (Form 8038-G), Information Return for Small Tax-Exempt Governmental Bond Issues, Leases and Installment Sales (Form 8038-GC), and Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate (Form 8038-T).

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

- D. Determined whether there were any apparent weaknesses, related to completeness or accuracy, of Series 8038 return processing activities.
 - 1. Obtained a download of Series 8038 returns processed at the OSC between March 1, and September 30, 1998.
 - 2. Selected a random sample of 30 of the total 52,120 bond returns processed on Masterfile between February and September 1998. We also traced these cases to corresponding source documents to determine whether the information was correct.
 - 3. Selected a judgmental sample of 30 returns from the paper files and traced them to the automated records to determine whether the information was captured on the system and was accurate.
 - 4. Selected a judgmental sample of 25 8038-T returns from the paper files to compare against shipment records to ensure that incoming returns and any remittances were properly received, accounted for, and controlled.
 - 5. Determined whether Series 8038 return related information was available to revenue agents for research as needed.
 - 6. Identified and evaluated steps taken to control Series 8038 returns submitted to the Philadelphia Service Center (PSC) prior to shipment to the OSC. Also, ensured that remittances were timely accounted for and deposited.
- E. Determined why EP/EO management has decided not to process previously filed returns. Also, assessed whether the Return Inventory Classification System (RICS) served as an adequate means for making historical information available for research needs.
- II. Determined whether the EP/EO has implemented an effective process for administering and overseeing the Tax-Exempt Bond Program.
 - A. Determined whether EP/EO management has established long-term strategic plans/goals to guide the Tax-Exempt Bond Program. Also, identified the expected outcomes of the program.
 - B. Determined the roles of the Bond Group, Bond Focus Group, and Key District Office personnel in the Tax-Exempt Bond Program and ensured sufficient level of oversight and guidance were provided to Revenue Agents by assessing their:

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

1. Level of oversight.
 2. Process improvement efforts.
 3. Role as a resource for revenue agents.
 4. Level of staffing and collateral duties.
- C. Determined whether the results of EP/EO review of initial tax-exempt bond cases, initiated in response to the IRS' Internal Audit's March 1996 report, and its subsequent small issue compliance study, were used to identify additional: training requirements, new compliance initiatives, and estimated resource needs. Identified how these issues were addressed subsequent to the issuance of the report.
- D. Identified EP/EO ongoing efforts to review cases for quality and process improvement issues. Also, determined whether results of case reviews completed in the Key District Offices were coordinated with the EP/EO National Office Bond Group. Determined how this information was used to enhance the Program (i.e., through identification of additional training/guidance needs, new compliance initiatives case selection criteria, or emerging issues/trends).
- E. Determined that the EP/EO established an operational review process to monitor the effectiveness of ongoing operations. Ensured this process included gathering and analyzing sufficient information to assess Program accomplishments and resource utilization. Also, ensured that results were used to better direct enforcement and education activities.
- F. Reviewed training course materials and procedural guidelines to determine whether the information provided the basic foundation needed to conduct tax-exempt bond audits.
- G. Interviewed a sample of revenue agents to determine whether the tax-exempt bond training program and resource guidelines provided sufficient information for them to conduct audits. Determined what types of additional training or guidance would be desired. Also, determined whether revenue agents had sufficient resources/support to assist them in resolving problems.
- H. Determined whether a specific Audit Information Management System (AIMS) tracking code for tax-exempt bond audits/cases has been established. Also, selected a judgmental sample of cases and ensured that the cases were effectively controlled and tracked on the AIMS.

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- I. Assessed whether guidelines for assigning cases by grade have been completed and implemented.
- J. Determined whether the EP/EO has developed case selection criteria to supplement “criteria” previously provided by the IRS Chief Counsel function.

**The Internal Revenue Service Needs to Strengthen Its Operating Controls for the
Tax-Exempt Bond Program**

Appendix II

Major Contributors to This Report

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**The Internal Revenue Service Needs to Strengthen Its Operating Controls for the
Tax-Exempt Bond Program**

Appendix III

Report Distribution List

Deputy Commissioner for Operations C:DO

Chief Operations Officer OP

Commissioner (Tax Exempt and Government Entities Division)¹ OP:TE/GE

Assistant Commissioner (Forms & Submission Processing) OP:FS

Director, Exempt Organization Division OP:E:EO

Director, Office of Program Evaluation and Risk Analysis M:O

National Director for Legislative Affairs CL:LA

National Director, Submission Processing OP:FS:S

Office of the Chief Counsel CC

Office of Management Control M:CFO:A:M

Audit Liaisons:

 Commissioner, Tax Exempt and Government Entities Division OP:TE/GE

 Assistant Commissioner, Forms & Submission Processing OP:FS

¹ As a result of the recent IRS Reorganization, this designated official title was changed from the Assistant Commissioner (EP/EO) as reflected in the draft report.

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our previously recommended corrective actions have had on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Finding and Recommendation: The IRS has taken some corrective actions to address the concerns cited in the previous audit report that impact the control environment for the Tax-Exempt Bond Program (page 5). Specifically, the IRS established new automated systems to process tax-exempt bond returns. The Masterfile was adjusted to process Forms 8038, 8038-G and 8038-GC¹ returns in January 1998. Also, the Statistics of Income function generated data tapes of bond return information from tax year 1986 to 1995 and stored the data on the Returns Inventory Classification System (RICS). A separate database file was also created on the RICS to process Forms 8038-T returns (page 6).

Type of Outcome Measure: Protection of resources/reliability of information. This is an actual outcome.

Value of the Benefit:

95,223 tax-exempt bond returns were recorded on the Masterfile (page 6).

Methodology Used to Measure the Reported Benefit:

The value of the benefit was established through the IRS reporting tax-exempt bond processing results.

¹ Series 8038 returns include Information Return for Tax Exempt Private Activity Bond Issues (Form 8038), Information Return for Tax Exempt Governmental Obligations (Form 8038-G), Information Return for Small Tax-Exempt Governmental Bond Issues, Leases and Installment Sales (Form 8038-GC), and Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate (Form 8038-T).

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

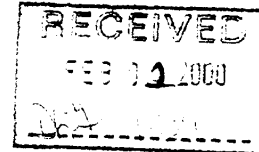
Appendix V

Management's Response to the Draft Report



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

February 2, 2000



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: Charles O. Rossotti 
Commissioner of Internal Revenue

SUBJECT: Draft Treasury Inspector General for Tax Administration
(TIGTA) Audit Report—The Internal Revenue Service
Needs to Strengthen Its Operating Controls for the Tax-
Exempt Bond Program

Thank you for the opportunity to respond to your draft report dated December 28, 1999, regarding the Tax-Exempt Bond Program. The recommendations in the report will help us correct identified deficiencies and operate more efficiently.

The IRS appreciates the efforts of your staff. We agree we need to strengthen the operating controls over the processing of tax-exempt bond returns. We also agree there is a need to fully implement an automated system for the processing of tax-exempt bond returns, and that this continues to represent a Federal Manager's Financial Integrity Act material weakness.

Attached are responses to the five recommendations in the draft report.

Questions regarding this response should be directed to Steven T. Miller, Acting Director (Government Entities), T:GE, at (202) 622-8200, or Joe Grabowski of his staff at (202) 622-7761.

Attachment

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

Attachment 1

The TIGTA review was limited to a follow-up of the deficiencies noted in a previous IRS Inspection Service report dated March 22, 1996. Your staff concentrated its review on various interim measures and systems which the IRS implemented to control and process tax-exempt bond returns and remittances, pending the implementation of RIS EXO-9-0004, submitted March 1, 1999. As a result, your staff did not analyze and report on the limitations of the current Master File (MF) processing. It is the view of TE/GE that completion of the programming called for in the RIS and its amendments will enable the IRS to successfully process these returns and remittances to the Master File, and thereby satisfy the major concerns underlying this report. Completion of the programming contemplated in the RIS, therefore, is, in our view, the action most necessary to correct the FMFIA material weakness regarding the processing of bond returns.

Identity of Recommendation/Finding #1

The IRS should ensure the Forms 8038-T are recorded on the RICS and that responsible personnel consistently monitor the processing of tax-exempt bond returns to promptly address any concerns that would inhibit the IRS from accomplishing its desired program objectives.

Assessment of Cause

Forms 8038-T are currently not processed to the Master File. In order to maintain a record of returns and money received, TE/GE, Submission Processing and the Ogden Service Center determined not only to maintain the paper file, but to create and maintain a supplemental file on RICS until programming is implemented to process tax-exempt bond returns to the Master File. Training of Service Center personnel, and the conversion to new software on RICS, created a backlog of returns for input. During this period, normal handling of deposits through IRACS continued, and such deposits were recorded to a Lotus spreadsheet.

Corrective Actions

As of December 31, 1999, the Service Center had input 15,329 Forms 8038-T to RICS, and no backlog of returns or documents awaiting input remains. Therefore, all Forms 8038-T are recorded on RICS, and no further corrective action is required with respect to the backlog. It is important to note, however, that RICS is a supplemental informational data file and not a processing system. A RIS, EXO-9-0004, was submitted March 1, 1999, requesting programming to allow these forms to be processed to the Master File by January 1, 2001. Pending completion of this RIS, Ogden Service Center will continue processing these forms by inputting deposits to IRACS, inputting certain information to RICS, and filing returns by EIN. The use of RICS is only a stop-gap measure. However, without implementation of the RIS for 2001, this issue will continue to be a FMFIA material weakness.

Implementation Date

January, 2001

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

Responsible Official

Evelyn A. Petschek
Commissioner, Tax Exempt and Government Entities Division

Corrective Action Monitoring Plan

On a quarterly basis, TE/GE will confer with Ogden Service Center to insure that all Forms 8038-T are input to RICS.

Further, TE/GE will continue to press for the implementation of RIS EXO-9-0004.

Identity of Recommendation/Finding #2

The IRS should ensure that all shipment procedures are followed, including the preparation of specific documentation of returns transferred to the OSC.

Assessment of Cause

In January, 1998, the IRS officially transferred the program for processing tax exempt bond forms from the Philadelphia Service Center to the Ogden Service Center. Returns filed in Philadelphia were transshipped to Ogden for processing. Philadelphia did not always follow the established procedures for shipping returns. These require, in part, that Form 3120 be completed with specific information about each return and that Forms 2221 and 2158 be completed when a payment is attached. Ogden did not alert Philadelphia that the documentation was inadequate.

Corrective Actions

Memoranda will be sent to both Philadelphia and Ogden. The memorandum to Philadelphia will reinforce the need to follow all shipping procedures, including the preparation of the appropriate documentation, when returns are transferred. The memorandum to Ogden will reinforce the need to ensure that received returns are adequately documented.

Implementation Date

March 1, 2000

Responsible Official

Brien T. Downing
Assistant Commissioner, Forms and Submission Processing

Corrective Action Monitoring Plan

A control will be issued to ensure the memoranda are sent. The memorandum to Ogden will include an instruction to inform both Philadelphia Submission Processing Center and the National Director, Submissions Processing, when the shipping documentation is inadequate.

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

Identity of Recommendation/Finding #3

Service Center management should re-emphasize the need for employees to apply the proper procedures for the shipment of tax returns and the timely deposit of remittances. The IRS should also take prompt action to revise the tax-exempt bond form instructions to alert taxpayers of the correct address for filing returns.

Assessment of Cause

In January, 1998, the IRS officially transferred the program for processing tax exempt bond Forms 8038, 8038-G, 8038-GC and 8038-T from the Philadelphia Service Center to the Ogden Service Center.

During the period that the processing of tax exempt bond returns was transitioned from Philadelphia to Ogden, correct processing was not given adequate emphasis. As a result, some remittances were not identified and deposited, and returns that were shipped to Ogden for processing were not properly documented and controlled. The same situation will not occur again, since the shipments of large numbers of bond returns from Philadelphia to Ogden were the result of the transition. However, management must ensure that all procedures are followed for any returns which continue to be received in Philadelphia.

As of May, 1999, the instructions for three of the four forms did not yet reflect the correct new address for filing the returns.

Corrective Action

- A. The memorandum referenced in the corrective action for Recommendation #2 also will reference the need to re-emphasize the use of proper procedures for shipping tax exempt bond returns, and for depositing remittances.
- B. In June, 1999, the instructions for the 8083 series tax exempt bond forms were revised to instruct taxpayers to file at the Ogden Service Center.

Implementation Date

- A. March 1, 2000
- B. Completed June, 1999

Responsible Official

Brien T. Downing
Assistant Commissioner, Forms and Submission Processing

Corrective Action Monitoring Plan

- A. A control will be issued to ensure the memorandum is sent. The memorandum to Ogden referenced in Recommendation #2 also will include the instruction that Ogden is to inform both the Philadelphia Submission Processing Center and the National Director, Submission Processing if there is evidence that procedures are not being followed.
- B. N/A

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

Identity of Recommendation/Finding #4

The IRS should develop instructions for the processing of late filed tax exempt bond returns. These instructions should also require that late-filed returns be posted to the Master File before being forwarded for processing.

Assessment of Cause

The 1,149 returns identified in the report were not processed immediately upon receipt because IRS consistency checks identified the returns as containing inherent problems which prevented posting until the problem was resolved.

One of the inherent problems with these cases was the issue of whether they were or were not timely filed. With respect to one category of these cases, those involving Form 8038-GC, the Service was able to determine, upon review of these cases, that they were in fact timely filed. Procedures to accomplish the processing of these cases were written, and they were processed by October 1999 to the Master File as information returns.

With respect to the remaining cases, an unresolved legal issue prevented the IRS from determining whether these cases were timely or delinquent. This issue has been presented to Counsel for resolution. To date, the question is not resolved.

While awaiting this determination, internal controls have been established on IDRS for the 8038 and 8038-G returns. These have not been posted to the Master File, but they are controlled and they are researchable.

Corrective Action

A. All Forms 8038-GC identified in the report have been posted to the Master File. This was completed by October, 1999. Instructions will be issued to Ogden by February 1, 2000, to post the remaining Forms 8038 and 8038G to the Master File as information returns.

B. When Counsel determines whether the non-8038-GC returns were or were not timely filed, procedures will be written governing the processing of such returns that are received in the future. These procedures will include guidance to Ogden concerning the imposition of penalties.

C. When RIS EXO-9-0004 is implemented, it will be possible to post bond returns with a Transaction Code 150 (return filed) immediately upon receipt in Ogden Service Center, and this will be done.

Implementation Date

- A. February, 2000
- B. October, 2000
- C. January, 2001

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

Responsible Official

Evelyn A. Petschek
Commissioner, Tax Exempt and Government Entities Division

Corrective Action Monitoring Plan

- A. A control will be established to ensure that a memorandum is issued by February 1, 2000 instructing Ogden to post the 8038 and 8038-GC returns to the Master File as information returns.
- B. TE/GE will monitor Counsel's preparation of a response to our inquiry. When it is received, TE/GE and Submission Processing will issue revised instructions for Ogden.
- C. In the twelve month period after the RIS is operational, TE/GE and Submissions Processing will coordinate a periodic sample of returns to ensure proper posting to the Master File.

Identity of Recommendation/Finding #5

The IRS should ensure that all incoming tax-exempt bond cases selected for examination are entered on AIMS before Revenue Agents start their audits.

Assessment of Cause

TE/GE does not currently have the capability to order a tax-exempt bond return selected for examination by using AIMS and the Master File. This means that an agent beginning an examination must manually input the case onto AIMS open examination inventory through Non Master File. IRM procedures require an agent to perform this manual input at the time he or she begins to work a tax exempt bond case

Corrective Action

- A. TE/GE will issue a memorandum to reinforce the current requirement that a record of all returns under examination must be established on the NMF prior to the commencement of audits. Further, the content of this memorandum will be discussed at the February 2000 Tax Exempt Bond Conference.
- B. When RIS EXO-9-0004 is implemented, agents will order cases through AIMS. This will have the effect of entering onto AIMS any bond case selected for examination before the audit begins.
- C. TE/GE has previously analyzed quarterly reports and AIMS establishment records and notified field offices of discrepancies. TE/GE will continue to monitor these reports and records to ensure that all examination cases are established on AIMS.

Implementation Date

- A. March, 2000

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program

B. January, 2001

C. Ongoing

Responsible Official(s)

Evelyn A. Petschek

Commissioner, Tax Exempt and Government Entities Division

Corrective Action Monitoring Plan

TE/GE will compare the information on open and closed cases in the quarterly reports with the AIMS records.