

**Letter Report: Reliability Issues with the
Coordinated Examination Management
Information System**

September 2000

Reference Number: 2000-30-135

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.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 28, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Letter Report – Reliability Issues with the Coordinated
Examination Management Information System

This report presents the results of our review of the Coordinated Examination Management Information System (CEMIS). Our objective was to determine whether the CEMIS provided reliable information to its users.

In summary, we identified a few significantly misstated items in the CEMIS. The misstatements reduced the reliability of some information used to help manage the Coordinated Examination Program (CEP). In Fiscal Year 1999, the CEP cost approximately \$355 million to operate while recommending that the largest and most complex corporations in the nation pay approximately \$11.1 billion in additional taxes.

We recommended that management of the Large and Mid-Size Business Division increase team managers' and coordinators' knowledge and understanding of the CEMIS. Internal Revenue Service (IRS) management agreed with the recommendation presented in this report. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

Letter Report: Reliability Issues with the Coordinated Examination Management Information System

Objective and Scope

Our objective was to determine whether the CEMIS provided reliable information to users.

Our objective was to determine if the Coordinated Examination Management Information System (CEMIS) provided users with reliable information to help manage the Coordinated Examination Program (CEP). The audit was performed from November 1999 through May 2000 in accordance with *Government Auditing Standards*. To accomplish our objective, we conducted the following tests in the Internal Revenue Service's (IRS) National Headquarters and the Georgia, North Texas, and Southwest District Offices:

- Traced source information from a sample of 19 CEP cases that were closed in Fiscal Year (FY) 1999 to the corresponding items in the CEMIS. Our original intent was to analyze source information from a statistically valid sample of 65 CEP cases that were closed in FY 1999. However, we adjusted the scope of the review after conducting in-depth reviews of 19 cases and finding many of the same problems.
- Obtained acknowledgment from high-level IRS officials responsible for the CEP about the validity of our conclusion that the reliability of certain items in the CEMIS is a nationwide problem.
- Reviewed IRS guidelines and interviewed IRS officials to determine how the CEMIS can be used to help manage the CEP.

IRS officials acknowledged the validity of our conclusion that the reliability of certain items in the CEMIS is a nationwide problem.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

Background

The IRS examines approximately 1,700 of the nation's largest and most complex corporations and partnerships under the CEP. In FY 1999, the CEP cost approximately

Letter Report: Reliability Issues with the Coordinated Examination Management Information System

The CEMIS is a computer-based management information system that provides all levels of management with information about the status and results of examinations.

Overall, most items we validated in the CEMIS were accurate.

The recently established LMSB Division is responsible for the CEP.

\$355 million to operate while recommending that the largest and most complex corporations in the nation pay approximately \$11.1 billion in additional taxes. Corporations selected for the CEP generally report assets that exceed \$250 million and are examined by a team of IRS examiners that can include engineers, computer specialists, economists, and specialists in international taxation.

To help manage the approximately \$355 million of FY 1999 resources associated with the CEP, the IRS relied heavily on the CEMIS. The CEMIS is a computer-based management information system that provides all levels of management with information about the status and results of examinations. Among its capabilities, the CEMIS can help managers (1) measure the success of examination efforts and initiatives, (2) identify emerging tax administration issues, and (3) develop plans for deploying resources.

Results

Overall, most of the items in the CEMIS were accurately stated. However, there are some reliability issues in the CEMIS due to a few significantly misstated items that could affect managerial decision-making.

Misstated Items in the Coordinated Examination Management Information System Could Affect Managerial Decisions

The recently established Large and Mid-Size Business (LMSB) Division is responsible for the CEP and has divided the program into five industry segments based on their product or predominant activity. Since the industries are geographically dispersed across the nation, several managers at the middle and upper levels have responsibilities for the CEP examination teams located in various cities and states.

Letter Report: Reliability Issues with the Coordinated Examination Management Information System

The LMSB Division's top executives and managers are linked to front-line CEP examination teams.

Unlike the past, when the highest ranking official in the CEP did not have direct line authority over the budget and resources for the CEP examinations, the LMSB Division's top executives and managers are linked to front-line CEP examination teams. The LMSB Division structure is designed to allow executives and managers to more directly plan and control the CEP examinations. For effective decision-making, LMSB Division executives and managers need an effective internal control system that provides reasonable assurance that information used to help manage operations is reliable.

To validate the reliability of the CEMIS, we traced source information from 19 CEP cases (37 returns) to the corresponding data items in the CEMIS. In 11 of 19 cases, there were 1 or more misstatements. We categorized the problems into the following three areas.

Total adjusted revenue (TAR) from examinations was significantly misstated

TAR was misstated by approximately \$384 million (29 percent).

Our 19 cases involved over \$1.3 billion of TAR, of which approximately \$384 million (29 percent) was misstated on 9 cases. TAR was developed and used to measure the success of the CEP examination efforts and initiatives. It quantifies the additional monies coming into the Treasury as well as revenue protection efforts. For example, TAR takes into account efforts to disallow unwarranted claims and Net Operating Losses claimed by corporations that either generate refunds or reduce tax liabilities in other years.

Codes used to track tax issues were frequently not accurate

Accurate UIL codes can help identify emerging compliance problems.

In 6 of our 19 cases, Uniform Issue List (UIL)¹ codes used for tracking tax adjustments were not properly input or were missing for 23 (30 percent) out of

¹ Uniform Issue List codes: The IRS Office of the Chief Counsel's 8-digit code system that describes legal problems arising under the Internal Revenue Code.

Letter Report: Reliability Issues with the Coordinated Examination Management Information System

76 issues. This involved approximately \$239.3 million (5 percent) of the over \$4.8 billion associated with these codes. Since UIL codes describe tax issues in terms of the Internal Revenue Code, they can be used as a tool in the CEP planning process. For example, accurate UIL codes can help identify emerging compliance problems so plans can be developed to address them. Accurate UIL codes can also help identify the need for specialists, such as international examiners, engineers, or economists, during examinations.

Adjustments to significant issues were often misstated

Tax adjustments to significant issues were misstated by approximately \$114 million.

In 5 of our 19 cases, 12 (18 percent) of the 67 issue amounts that were listed in the CEMIS were misstated, involving approximately \$114 million (2 percent) of the over \$4.8 billion. Knowing adjustment amounts associated with specific issues can help managers compare the benefits likely to be gained from examining an issue to the resources needed to perform the examination. Accurate tax adjustment amounts also provide some perspective on whether an issue has potential national or industry-wide impact.

Discussions with several managers and coordinators indicated that they had not received adequate training on the CEMIS.

The misstatements in the CEMIS were caused by team managers and coordinators not accurately computing TAR, not considering all applicable UIL codes, and not revising initial estimates of tax adjustments to reflect the final recommended amount. Discussions with several managers and coordinators indicated that they had not received adequate training on the CEMIS. One case manager said:

Training on CEMIS was a self-study course and it is now obsolete. To generate informative reports, a better training program is needed.

Recommendation

The Commissioner, LMSB, should increase team managers' and coordinators' knowledge and understanding of the CEMIS. This could be accomplished by including, in a professional education session, a CEMIS training module

Letter Report: Reliability Issues with the Coordinated Examination Management Information System

which emphasizes the importance accurate CEMIS data can play in planning, managing, and reporting on the CEP.

Management's response: IRS management agreed with our recommendation. They will conduct both classes and informal presentations to increase the CEP field personnel's knowledge and understanding of the CEMIS.

Management's complete response to the draft report is included as Appendix IV.

Conclusion

In FY 1999, the CEP spent approximately \$355 million in examining the largest and most complex corporations and recommending that they pay some \$11.1 billion in additional taxes. We identified significantly misstated items in the CEP's management information system, CEMIS, that reduced the reliability of some information used to help manage the CEP.

**Letter Report: Reliability Issues with the
Coordinated Examination Management Information System**

Appendix I

Major Contributors to This Report

Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs)

Philip Shropshire, Director

Frank Dunleavy, Audit Manager

Earl Charles Burney, Senior Auditor

Stanley Pinkston, Senior Auditor

Rose Ena Cantu, Auditor

**Letter Report: Reliability Issues with the
Coordinated Examination Management Information System**

Appendix II

Report Distribution List

Deputy Commissioner Operations C:DO
Commissioner, Large and Mid-Size Business Division LM
District Director, Georgia District D
District Director, North Texas District D
District Director, Southwest District D
Office of the Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis M:O
Office of Management Controls CFO:A:M
Audit Liaison:
 Commissioner, Large and Mid-Size Business Division LM

**Letter Report: Reliability Issues with the
Coordinated Examination Management Information System**

Appendix III

Outcome Measures

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

Finding and recommendation:

We identified significantly misstated items in the Coordinated Examination Management Information System (CEMIS) that reduced the reliability of some information used to manage the Coordinated Examination Program (CEP). The misstatements occurred because team managers and coordinators had not received adequate training on the CEMIS (see page 2).

Type of Outcome Measure:

Protection of Resources and Reliability of Information – Actual

Value of the Benefit:

We believe our recommendation to address the inaccuracies in the CEMIS will provide Internal Revenue Service officials with an opportunity to enhance the reliability of the information with which to manage the CEP. In Fiscal Year (FY) 1999, the CEP spent approximately \$355 million to examine and recommend that the largest and most complex corporations pay some \$11.1 billion in additional taxes.

Methodology Used to Measure the Reported Benefit:


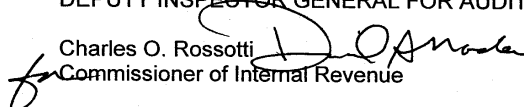
To estimate the amount of resources associated with CEP examinations, we contacted the Budget Liaison of the Examination Office of Management and Analysis. This office provided us with the total costs of operating the CEP for FY 1999, which included labor and non-labor costs.

To determine the amount of additional taxes recommended by CEP examinations annually, we used the FY 1999 Audit Information Management System (AIMS). The AIMS showed that CEP examinations resulted in \$11.1 billion of additional recommended taxes.

**Letter Report: Reliability Issues with the
Coordinated Examination Management Information System**

Appendix IV

Management's Response to the Draft Report

 COMMISSIONER	DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D.C. 20224	<div style="border: 1px solid black; padding: 5px; display: inline-block;">RECEIVED SEP 26 2000 10:55 AM</div>
September 25, 2000		
MEMORANDUM FOR PAMELA J. GARDINER DEPUTY INSPECTOR GENERAL FOR AUDIT		
FROM:	Charles O. Rossotti  Commissioner of Internal Revenue	
SUBJECT:	Draft Letter Report – Reliability Issues with the Coordinated Examination Management Information System	
<p>Thank you for the opportunity to review your draft letter report on the Reliability Issues with the Coordinated Examination Management Information System (CEMIS). We have reviewed the report and agree with your recommendation. The reliability of our management information systems is extremely important and we appreciate your auditor's work in identifying areas where we can improve CEMIS.</p> <p>We have begun to improve the reliability of the information on our management information systems, including CEMIS. We are developing an integrated Issue and Knowledge Management System to either replace or connect our current legacy systems. CEMIS, as we discussed with your audit team, will be replaced with a user-friendly Oracle software system within the next 12 to 24 months. We believe this will dramatically improve the reliability of the information because the new systems will be connected and will eliminate most of the duplicate data entry now taking place. This duplicate data entry accounts for many of the errors your auditors found.</p> <p>In the short term, while we maintain CEMIS, we will continue perfecting CEMIS data and ensuring that our personnel are properly trained on the importance and use of the system. We just completed a CEMIS presentation to territory managers and have a second one scheduled in November. Six team manager classes are scheduled in Fiscal Year 2001. These classes are given to new team managers and contain a module on CEMIS. Finally, we will schedule in Fiscal Year 2001 CEMIS classes in our local offices to train team and territory managers and the clerical staff that performs the data entry.</p> <p>Our comments on the specific recommendation in this report are as follows:</p> <p>IDENTITY OF RECOMMENDATION The Commissioner, LMSB, should increase team managers' and coordinators' knowledge and understanding of the CEMIS. This could be accomplished by including, in a professional education session, a CEMIS training module which emphasizes the</p>		

**Letter Report: Reliability Issues with the
Coordinated Examination Management Information System**

2

importance accurate CEMIS data can play in planning, managing, and reporting on the CEP.

ASSESSMENT OF CAUSE(S)

TIGTA identified significantly misstated items in the CEMIS, that reduced the reliability of some information used to help manage the CEP Program. In the last several years there was a lack of adequate training.

CORRECTIVE ACTIONS

Classes and less formal presentations are scheduled in Fiscal Year 2001 to increase CEP field personnel's knowledge and understanding of CEMIS.

IMPLEMENTATION DATE

PROPOSED – September 30, 2001.

RESPONSIBLE OFFICIAL

Deputy Director Strategy, Research and Planning.

We agree with your description of the benefit of your recommendation in Appendix III. Finally, we reviewed your draft letter for disclosure issues and could find no areas that would warrant protection under the Freedom of Information Act.

If you have any questions, please call me or a member of your staff may contact Harry Lebedun on (202) 283-8379.