

Chapter 14

Examination TEQMS Scores for FY 2002, Where We Have Done Well, Areas Needing Improvement and Proposed Changes for FY 2004

*By Marty Friedlander (Special Review))
And
Gale Moore (Special Review) Reviewer*

*INTERNAL REVENUE SERVICE
TAX EXEMPT AND GOVERNMENT ENTITIES*

Table of Contents

TABLE OF CONTENTS-----1

OVERVIEW -----3

 INTRODUCTION-----3

BACKGROUND -----3

 PURPOSE OF TEQMS-----3

DEFINITIONS OF TERMS -----4

 LIST OF CURRENT TEQMS STANDARDS-----5

 CHAPTER REFERENCES -----5

STANDARDS’ SCORES FOR FY 2002 AND FY 2001 -----5

WHERE WE HAVE DONE WELL IN 2002-----6

ELEMENTS THAT EXPERIENCED SIGNIFICANT IMPROVEMENTS DURING FY2002 -----6

ELEMENT-EXAMINATION PLANNING -----6

ELEMENT-EXAMINATION SCOPE -----7

ELEMENT-EXAMINATION TECHNIQUES -----7

STANDARDS NOT MET IN 2002 AND CORRECTIVE ACTIONS -----8

EXAMINATION PLANNING STANDARD -----8

 INTRODUCTION-----8

 PRIOR TO TAXPAYER CONTACT-ELEMENT -----8

 TAXPAYER CONTACT-ELEMENT -----8

Continued on next page

Table of Contents, Continued

WORKPAPER/REPORTS STANDARD ----- 9

 ELEMENTS EXCEEDING 80% GOAL ----- 9

 ELEMENTS NOT MEETING 80% GOAL ----- 9

 ACTIONS NEEDED TO MEET ELEMENT REGARDING WORKPAPERS AND AUDIT TRAIL ----- 9

 TO MEET ELEMENT REGARDING CLOSING PROCEDURES ----- 10

TIMELINESS STANDARD ----- 10

 TWO ELEMENTS MET OR EXCEEDED GOAL ----- 10

 THREE ELEMENTS DID NOT MEET GOAL ----- 10

 ELEMENT—STARTING EXAMINATIONS ----- 11

 ACTIONS TO REDUCE THE DELAY OF EXAMINATION/ START/REASSIGNMENT ----- 11

 ELEMENT—ACTIONS TAKEN TIMELY ----- 11

 ACTIONS TO IMPROVE ELEMENT ----- 12

 ELEMENT-PROTECT THE STATUTE ----- 12

TEQMS PROPOSED CHANGES ----- 13

 TYPES OF CHANGES ----- 13

SPECIFIC CHANGES TO ELEMENTS AND ASPECTS ----- 13

ADDITIONAL NOTE ----- 14

 TEQMS ALERT NUMBER 2 ----- 14

Overview

Introduction

The FY 2002 examination cases analysis using the Tax Exempt Quality Measurement System (TEQMS), shows, in part, which standards met the 80% target score and which did not. Elements and aspects responsible for those standards not meeting the 80% target are emphasized in this chapter. Discussions will be held on how to improve some standards not meeting the 80% target. Also in this chapter are the proposed changes to TEQMS for the FY 2004 year.

Background

Purpose of TEQMS

TEQMS measures the quality of cases in statistically valid samples. In part, the results indicate areas that require additional effort to achieve quality goals. The FY 2002 and 2003 target goal is to have at least 80% of cases meet the standard. The target goal for FY 2004 is 83%. TEQMS is not evaluative at the group or employee level. It is expected to improve quality by providing feedback to management, serve as a tool to help identify improvement opportunities in case quality and increase consistency in examinations.

Definitions of terms

Term	Definition
Standard	Eight major areas of TEQMS are made up of two or more elements
Element	May be presented as a question (if element stands alone) or a topic (requires set of questions called aspects).
Aspects	Subdivisions of elements presented as a topic
Key	Elements and aspects deemed to be so important that if the element or aspect is not met, the whole standard is not met (designated with a “*” sign)

Continued on next page

Definitions of terms, Continued

List of Current TEQMS Standards	<ol style="list-style-type: none"> 1. Examination Planning 2. Examination Scope 3. Documents/Operational Compliance 4. Examination Techniques 5. Workpapers/Reports 6. Application of Law/Tax Determination 7. Timeliness 8. Customer Relations/Professionalism
--	---

Chapter References	TEQMS Manual for EP Examinations (Catalog No. 86705M) Revised 10/01/2000 TEQMS Alert No. 2 Memo-Employee Briefings – TEQMS Changes for FY 2001-2002
-------------------------------	--

Standards' Scores for FY 2002 and FY 2001

Generally standards' scores were up from FY 2001.

Standard Number-Title	% 2002	% 2001
1. Examination Planning	70%	53%
2. Examination Scope	79%	70%
3. Document/Operational Compliance	84%	82%
4. Examination Techniques	80%	74%
5. Workpapers/Reports	69%	63%
6. Application of Law/Tax Determination	89%	91%
7. Timeliness	72%	67%
8. Customer Relations/Professionalism	84%	79%

Where We Have Done Well in 2002

- The scores for examination planning, examination scope, examination techniques and customer relations/professionalism have exhibited a continuous upward trend from FY2001 and the earlier quarters of FY2002. The cumulative FY2002 scores are less than the 4th quarter scores, as the lower scores from the earlier quarters are reflected within the fiscal year-end totals.
- Although the score for law/tax determination has not decreased materially, we have noted a drop from 91% to 86% from FY2001 to the fourth quarter of FY2002. This standard, however, scored a rating of 89% for FY 2002, which is only a 2% decrease from FY2001. Although the FY2002 score of 89% exceeds the 80% target score by 9% points, it is imperative that this standard be observed during FY2003 to ensure that the decrease is a transitory spike.
- Generally, the scores attributable to documents/operational compliance have been reflective of continuous positive trend; this standard demonstrated a downward spike during the 4th quarter of FY2002. We will continue to monitor the scores for this standard to ensure that this spike is not the start of a downward trend. A continual downward trend for this standard may affect our ability to reach the quality target of 80%.

Elements that experienced significant improvements during FY2002

Element-Examination Planning

- Element 1.B.1- There was a higher level of compliance with the power of attorney processing requirements. Examiners demonstrated an increased level of compliance in forwarding the Form 2848 to the Service Center within 10 days of receipt. The compliance score for this element increased from a cumulative score of 35% to 58% from FY2001 to FY2002. The score for the quarter ended September 30, 2002 was 76%. Although this is a significant increase, still below quality target of 80%.
- Element 1.A.1-Were appropriate internal information sources queried? This element demonstrated an increased from a score of 77% to 92% from FY2001 to FY2002. The score for the quarter ended September 30,2002 was 99%.
- Element 1.A.3-Was the correct statute of limitations date determined? This element was reflective of an increased score of 57% to 84% from FY2001 to FY2002. The score for the quarter ended September 30, 2002 was 98%.
- Element 1.B.4-Was the availability of books and records determined? This element recorded a 24% incremental score increase from 60% to 84% from FY2001 to FY2002. The score for the quarter ended September 30, 2002 was 96%.

Element-Examination Scope

- Element 2.B- Were Multi-year/related returns reviewed where warranted? This element recorded an increased score from 78% to 84% from FY2001 to FY2002. The score for the quarter ended September 30, 2002 was 93%.
- Element 2.C- Were package audit requirements followed? This element increased from 68% to 89% from FY2001 to FY2002. The score for the quarter ended September 30, 2002 was 98%.

Element-Examination Techniques

- Element 4.A- Were appropriate interviews conducted? This element scored an 89% rating for FY2002 and a 79% rating for FY2001. The 4th quarter of FY2002 was rated at a level of 96% compliance.
- Element 4.C- Were follow-up Information Document Requests clear and concise? This element was reflective of an increased score from 77% for FY2001 to 90% for FY2002. The 4th Quarter of FY2002 indicated that our examiners complied with this element 96% of the time.
- Element 4.E- Were identified issues properly developed? This element illustrated a cumulative increase in scoring from 76% to 81% from FY2001 to FY2002. The score for the quarter ended September 30, 2002 was 85%. This key element is especially relevant to the overall score ascribed to the examination technique standard and can be tangential component in satisfying the standards associated with operational compliance and application of law/tax determination.

Standards Not Met in 2002 and Corrective Actions

Examination Planning Standard

Introduction This standard consists of two elements.

1. Prior to Taxpayer Contact
 2. Taxpayer Contact
-

Prior to taxpayer Contact-element **Prior to Taxpayer Contact** has three aspects. All exceeded the 80% goal.

Taxpayer contact-element **“Taxpayer Contact”** has four **aspects**. Three aspects exceeded the 80% goal.

One aspect, “Were Power of Attorney requirements followed?” is a key aspect and did not meet the 80% goal.

The most significant reason and easiest to correct is to:

- forward the POA to the Service Center within 10 workdays of receipt. Commencing in FY2003, the POA must be forwarded to the Service Center prior to case closure.

Other aspects

- the date of receipt and the date forwarded must be documented
 - dates may be written on the 2848, or in the case chronology, or a FAX coversheet may be included to document the date forwarded (Note – This aspect will be changed in FY 2004.)
-

Workpaper/Reports Standard

Elements exceeding 80% goal

This standard consists of seven elements.

Elements exceeding the 80% goal

- Were workpapers legible, concise, and organized?
 - Was the case chronology record appropriately documented?
 - Did the report/closing letter appropriately reflect conclusions in the workpapers?
 - Were the examiner's computations correct?
-

Elements not meeting 80% goal

Elements not meeting the 80% goal

1. Did workpapers appropriately document the audit trail, research conducted, techniques and conclusions?
 2. Were case closing procedures followed?
 3. Did the examiner utilize RGS? (Note - The criteria to meet this element were changed during the 4th quarter of FY 2002. Not using RGS may now be acceptable under certain circumstances. In the 4th quarter of 2002 this element was met in 90% of the cases, so corrective actions will not be addressed.) (Note – This aspect will be changed in FY 2004)
-

Actions needed to meet element regarding workpapers and audit trail

To meet the element regarding workpapers and the audit trail, the agent's workpapers should document:

- information gathered
 - tests performed
 - procedures applied
 - oral testimony received
 - conclusions reached
-

Continued on next page

Workpaper/Reports Standard, Continued

To meet element regarding closing procedures

To meet the element regarding closing procedures the agent must:

- properly complete Form 5650 or 5599 (had the most significant impact)
 - properly complete Special Handling Notice
 - properly follow AIMS procedures
-

Timeliness standard

Two elements met or exceeded goal

This standard consists of five elements. Two met or exceeded the 80% goal. They are:

- Was time spent on the examination commensurate with the complexity of the issues?
 - Was the time span of the examination reasonable.
-

Three elements did not meet goal

Three elements did not meet the 80% goal. They are:

- Was the examination started within a reasonable timeframe?
 - Were actions taken timely?
 - Were actions taken timely to protect the statute of limitation?
-

Continued on next page

Timeliness standard, Continued**Element—
starting
examinations**

There were three primary reasons identified for the failure to meet the element for starting examinations timely

1. Most significantly, examiner's actions delay examination start/reassignment
 2. Take appropriate action to address delay by taxpayer
 3. Take appropriate action to address delay by representative
-

**Actions to
reduce the
delay of
examination/
start/reassignm
ent**

The following actions can be taken to reduce a delay of the start of an examination or of a reassignment of an examination:

- have first appointment within 45 days from the date the case was put in status 12 - field examinations
 - have examination initiated within 30 days from the date the case was put in status 12 – OCEPs
 - improvement to document delays would have significant impact for improvement in this area
-

**Element—
actions taken
timely**

There were four primary reasons identified for failure to meet the element for actions taken timely.

1. Examiner's actions delayed timely processing of case
 2. Group Manager did not close case timely
 3. Need to update AIMS timely
 4. No reason was documented within the workpapers or CCR to explain the delay
-

Continued on next page

Timeliness standard, Continued**Actions to improve element**

The examining agent (or manager) should:

- have no more than 45 days between significant actions – field examination
- have no more than 30 days between significant actions - OCEPs
- respond to correspondence within 14 days
- respond to telephone calls within 3 days
- close agreed or no change cases within 10 days of receiving all information/date no-change determination is made - agent
- close unagreed cases within 20 days of receiving all information/from closing conference or after closing conference was declined - agent
- close cases from the group within 10 days of receipt from the agent – manager (manager should initial and date case file)
- AIMS - updated timely (i.e., updated to status 12 timely)

Element-protect the statute

To meet the element for actions to protect the statute:

- Form 895 procedures should be followed
 - AIMS should be updated for statute extensions
 - Form 872's should be correctly completed and timely
 - Cases closed with less than 210 days on statute must be in red file folders
-

TEQMS Proposed Changes

Types of Changes

There are two types of proposed changes.

Changes will be made to the input form used by reviewers. These changes will capture additional information on elements or aspects not met. A Process Measure section will be added to the input form. A Process Measure will not be utilized as a scoring mechanism in determining the quality of a TEQMS case. It is diagnostic data. Some Process Measures will remain embedded in the elements 7A and 7B. They will measure timeframes directly related to that element.

Changes are also proposed to various elements and aspects of the TEQMS standards. Some elements and aspects will be moved to a different standard, some will become “key”, some will no longer be “key”, and some criteria for meeting the element or aspect will be revised.

Specific Changes to Elements and Aspects

Element or Aspect	Proposed Changes
Were Power of Attorney requirements followed?	<ul style="list-style-type: none"> no longer an element of Examination Planning no longer a “key” element Forwarding of F2848 to Service Center will be considered under Process Measures section procedural and perfection aspects will be considered under the taxpayer rights element of the Customer relations/Professionalism standard as “key” element
Was the initial Information Document Request clear/concise and appropriate?	<ul style="list-style-type: none"> becomes a “key” element
Were large unexplained questionable income/expense/balance sheet/return items considered?	<ul style="list-style-type: none"> no longer a “key” aspect
Were only material issues considered?	<ul style="list-style-type: none"> becomes a “key” aspect
Was the scope appropriate?	<ul style="list-style-type: none"> becomes a “key” aspect

Continued on next page

Specific Changes to Elements and Aspects, Continued

Element or Aspect	Proposed Changes
Were prior years/subsequent years and/or related returns included in the examination where warranted?	<ul style="list-style-type: none"> no longer a “key” element
Were all filing/compliance requirements (package audit) considered?	<ul style="list-style-type: none"> changes criteria for meeting element to rely on internal sources of information revised to recognize plan/trust as full scope examination and sponsor information limited to extent to complete examination of F5500 examination and verification of filing requirements
Were plan operations appropriately reviewed to evaluate compliance with plan terms?	<ul style="list-style-type: none"> Developed reason codes for technical matters that an examiner is expected to undertake Allows more productive feedback regarding the technical aspects of the case as opposed to administrative and procedural aspects
Did report/closing letter appropriately reflect conclusion in the workpapers?	<ul style="list-style-type: none"> becomes a “key” element
Did the examiner utilize RGS?	<ul style="list-style-type: none"> Will be considered under the Process Measures section
Was the law correctly applied?	<ul style="list-style-type: none"> Expanded reason codes to include Internal Revenue Code sections
Were actions taken timely to protect the statute of limitations?	<ul style="list-style-type: none"> Developed reason codes to capture proper preparation, solicitation and processing consents timely, and adherence to F895 procedures
Was a closing agreement/APRSC considered?	<ul style="list-style-type: none"> Updated to revised EPCRS (ie, SCP vs. APRSC)

Additional Note

TEQMS Alert Number 2

Additional note: TEQMS Alert No. 2, October 5, 2001, allows verification of the statute of limitations for 5500 returns using any of the following

- An EMFOL-T print
- An Employee Plans Classification Sheet
- An original return with a postmark received date

(Previously TEQMS required review of an EMFOL-T for statute verification.)