

TREASURY
INSPECTOR GENERAL

FOR TAX ADMINISTRATION

Annual
Audit Plan

Fiscal Year 2006



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Fiscal Year 2006 Annual Audit Plan

Message from the Deputy Inspector General for Audit

We believe that in Fiscal Year (FY) 2006 the Internal Revenue Service (IRS) will continue to deal with the same challenges identified previously, including the modernization of its computer systems, addressing the tax gap by balancing customer service and enforcement while protecting taxpayer rights, ensuring the security of its resources, and complying with its financial stewardship duties. Some of these issues are also concerns of the President, as cited in *The President's Management Agenda*.¹ In addition, the IRS and the Government Accountability Office (GAO) have listed some of the issues as material weaknesses in IRS programs.

Modernization of the IRS' computer systems is a major concern as it affects many other areas. The IRS has made progress during the past year in updating some of its systems. For example, the IRS implemented the first release of the Customer Account Data Engine modernization project,² which processed over a million tax returns during the 2005 filing season.³ It also deployed parts of the Modernized e-File project, which allow for the electronic filing of over 100 different tax forms, including forms filed by corporations and exempt organizations. In addition, the IRS and its contractors issued the first release of the Integrated Financial System, which provides new capabilities for internal use.

The completion of the initial phases of the National Research Project (NRP) allowed the IRS to recently release an updated estimate of the tax gap.⁴ The IRS' updated estimates of the tax gap, which is defined as the difference between what taxpayers are supposed to pay and what is actually and timely paid, have risen to between \$312 and \$353 billion annually. The next phase of the NRP has begun and it focuses on business taxpayers. It is critical for the IRS to efficiently complete these studies so its limited enforcement resources can be focused on the most serious areas of noncompliance.

Staffing in the IRS enforcement areas had decreased significantly over the past few years until 2004 when the IRS received additional funding and was able to increase its enforcement staffing slightly over the prior year. In the Examination function, the number of Revenue Agents decreased from 13,857 in FY 1995 to 9,787 in FY 2004. In the Collection function, the number of Revenue Officers decreased from 5,908 in

¹ *The President's Management Agenda, Fiscal Year 2002*;

[HTTP://WWW.WHITEHOUSE.GOV/OMB/BUDINTEGRATION/PMA_INDEX.HTML](http://www.whitehouse.gov/omb/budintegration/pma_index.html).

² The Customer Account Data Engine project is the foundation for managing taxpayer accounts in the IRS modernization plan.

³ The tax return filing season is the period from January through mid-April when most individual income tax returns are filed.

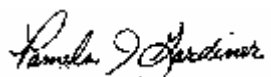
⁴ The IRS has initiated the National Research Program to measure taxpayers' voluntary compliance, to better approximate the tax gap, and to develop updated formulas to select noncompliant returns for examination. The first phase of this program addresses reporting compliance for individual taxpayers, and data from this phase were used to produce the recently updated estimates of this portion of the tax gap.

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FY 1995 to 3,789 in FY 2004. These decreases in staffing occurred during a period in which the number of tax returns filed increased over 10 percent.

Last year the Congress authorized the IRS to use private collection agencies to collect taxes. The use of contractors should allow the IRS to collect more outstanding taxes. The IRS will have to be vigilant in overseeing these contractors to ensure that abuses do not occur. Past experiences with lockbox thefts and insufficient contractor oversight provide valuable lessons to reduce the likelihood of similar issues occurring when contracting out collection of tax debt.

The Office of Audit's FY 2006 Annual Audit Plan is designed to assess areas related to the major challenges facing the IRS, including modernization, the tax gap and privatization as well as *The President's Management Agenda* initiatives. In addition, the TIGTA will continue to perform audits required by statute, as well as address concerns of the Congress, the IRS Oversight Board and other stakeholders. More information on specific IRS programs and the Office of Audit's FY 2006 coverage of those programs is included in the section entitled [Office of Audit's Program Areas](#).



Pamela J. Gardiner
Deputy Inspector General for Audit

The Mission and the Organization

The Internal Revenue Service's (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ established the Treasury Inspector General for Tax Administration (TIGTA) with the powers and authorities given to other Inspector General organizations under the Inspector General Act.² With its focus devoted entirely to the IRS, the TIGTA is charged with conducting independent and objective audits, evaluations, and investigations of the IRS' programs and activities. The TIGTA is organizationally placed within the Department of the Treasury, but it is independent of the Department and all other offices and agencies within the Department. The TIGTA is committed to providing timely, useful, and reliable information and advice to IRS officials, including its Chief Counsel, the IRS Oversight Board, the Department of the Treasury, the Congress, and the public.

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

Under the leadership of the Inspector General, the Deputy Inspector General for Audit (DIGA) is responsible for the Office of Audit. Four Assistant Inspectors General for Audit (AIGA), who are aligned around the IRS' core business activities, report to the DIGA. The four AIGAs cover: 1) Information Systems Programs, 2) Headquarters Operations and Exempt Organizations Programs, 3) Wage and Investment Income Programs, and 4) Small Business and Corporate Programs. Please see [Appendix I](#) for the Office of Audit organization chart.

The AIGAs advise the DIGA on the major risks facing the IRS in their respective program areas, and annually propose a national audit plan based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses. In addition, to keep apprised of operating conditions and emerging issues, the AIGAs maintain liaison and working contact with applicable IRS executives, Department of the Treasury and Government Accountability Office officials, and Congressional staffs.

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

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

Audit Program for Fiscal Year 2006

The Office of Audit Fiscal Year 2006 Annual Audit Plan communicates the Treasury Inspector General for Tax Administration's (TIGTA) audit priorities to the Internal Revenue Service (IRS), the Congress, and other interested parties. Many of the activities described in the Annual Audit Plan address the fundamental goals related to the IRS' mission to administer its programs effectively and efficiently.

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

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

To identify FY 2006 discretionary audit coverage, the TIGTA developed strategic planning questions to focus the audits on the most important tax administration issues. The primary questions, tailored to key IRS issues, have been classified as "Level I," and are designed to give TIGTA the ability to answer, with a high degree of confidence, the key questions that IRS management and external stakeholders are asking, and provide a clear context for the majority of the audits. Some factors considered when developing the Level I questions include: the IRS' Strategic Planning framework, the TIGTA's assessment of the IRS' major management challenges, and the Government Accountability Office's high-risk areas for the IRS. The six Level I questions are:

1. Is the IRS effective in maximizing taxpayer compliance?
2. Is the IRS meeting its goal of improving taxpayer service?
3. Is the IRS advancing financial and management reforms, including *The President's Management Agenda*?
4. Is the IRS sufficiently modernizing its information technology and providing the intended benefits to taxpayers?
5. Is the IRS adequately supported with timely, economical, and effective information and services?
6. Is the IRS adequately protecting its employees, facilities, data, and systems?

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

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

Second and third layers of questions, called Levels II and III, are more detailed and will enable the Office of Audit to design specific audit work to answer the more broad Level I questions. These more detailed questions were designed to be within the control of the AIGAs.

Identifying audits that will answer Level I, II, and III questions requires incorporating a risk assessment process that integrates professional judgment into assessing the probability that adverse conditions or events may occur and applying risk factors to key auditable areas in the IRS. Some factors used in evaluating the risks associated with the IRS' auditable areas are: stakeholder concerns, impact of new programs and tax legislation, reliability of internal control systems, and past audit results. Input from TIGTA executives and top-level IRS management, current workload, and other factors are also considered before a final decision is made on which audits will be conducted.

TIGTA's listing of the major management challenges facing the IRS in FY 2006 is included as Appendix II. The IRS' goals and objectives for the next four fiscal years are highlighted in Appendix III. Key initiatives of *The President's Management Agenda* are included as Appendix IV.

Planned FY 2006 audits have been mapped to the management challenges, the IRS' goals and objectives, *The President's Management Agenda* initiatives, and the strategic planning questions. The graphs in Appendices V, VI, VII, and VIII illustrate the FY 2006 resources that will address the audits as they correlate to each. Appendix IX shows the resources planned for statutory versus discretionary audits.

Office of Audit's Program Areas

The following narratives briefly describe the state of some of the Internal Revenue Service's (IRS) major programs and the Office of Audit's Fiscal Year 2006 Audit Program that will further assess those programs.

Information Systems Programs

The Modernization and Information Technology Services (MITS) organization is responsible for the ongoing multibillion dollar, multiyear Business Systems Modernization effort and for providing quality, efficient and responsive information services for the IRS. The Mission Assurance and Security Services (MA&SS) organization provides direction to the IRS business units for ensuring the security of IRS computer systems, property and personnel. The MITS and MA&SS organizations also have disaster recovery responsibilities.

For the IRS, modernizing technology has been an ongoing challenge. The current Business Systems Modernization (BSM) effort, which began in 1999, was expected to last approximately 15 years at a cost of \$8 billion. In addition to establishing and executing a program to modernize the IRS' core business systems, the BSM's strategic plan includes providing an infrastructure that is sufficiently flexible to adapt to evolving business needs and can be efficiently managed. The IRS' goal of providing high-quality, efficient, and responsive information services to its operating divisions is heavily dependent on this modernization of its core computer business systems while maintaining the existing systems. It is also reliant on the security of those systems and the buildings that house those systems, as well as the safety of the people who operate the computers.

During FY 2005, the TIGTA assessed the progress of the modernization efforts as well as the security of the IRS. For example, a report¹ of the Customer Account Data Engine (CADE), found that improvement plans were identified for CADE program management, requirements were developed to meet CADE Release 1.1 objectives, the CADE Release 1.1 contract task orders adequately reflected the project work performed, and the 2004 Pilot successfully simulated actual processes and procedures. However, documentation was not always complete, there were manual processes that could be automated, and disaster recovery requirements were not fully tested.

The BSM Office (BSMO) and the IRS Office of Procurement have long recognized the need to improve management of task orders for the BSM program and have been emphasizing the increased use of performance-based contracting (PBC).² Use of PBC means structuring all aspects of an acquisition around the purpose of the work to be

¹ *To Ensure the Customer Account Data Engine's Success, Prescribed Management Practices Need to Be Followed* (Reference Number 2005-20-005, dated November 22, 2004).

² *While Many Improvements Have Been Made, Continued Focus Is Needed to Improve Contract Negotiations and Fully Realize the Potential of Performance-Based Contracting* (Reference Number 2005-20-083, dated May 26, 2005).

performed, with the contract requirements set forth in clear, specific, and objective terms with measurable outcomes. Although the IRS has made improvements to contract management practices, further improvements can be made to increase the use of firm fixed-price task orders, provide for more successful contract negotiations, and ensure improved PBC processes are followed.

The Business Systems Development (BSD) is one of the largest functions in the Modernization and Information Technology Services (MITS) organization in terms of both size and resources. Managing and coordinating computer programming changes is a challenge in an organization that processes about 1,500 information services requests annually. Our analysis of the Request for Information Services (RIS) process determined the RISs are assigned to the BSD organization's subordinate offices based on their respective responsibilities, prioritized by RIS category, usually worked on a first-in first-out basis, and generally timely completed.³ In a separate report,⁴ TIGTA analyzed the 1,183 original RISs submitted to the BSD organization during FY 2004. Overall, 98 percent of the RISs included appropriate requirements when the customer submitted them to the BSD organization. Subsequent to the RIS submission and approval, 13 percent needed further requirements development through a RIS amendment. These amendments modified the existing requirements or added additional requirements as part of the RIS development process. In our opinion, the amendment activity is relatively low and indicates the RIS process and the communications between the BSD organization and customers work to adequately develop the requirements.

Security of the IRS' resources still presents a challenge with some IRS employees remaining susceptible to social engineering techniques.⁵ While the IRS has adequate computer security policies and procedures which require employees to protect passwords on IRS computer systems, some managers and employees still do not understand the rudimentary computer security practices of protecting their passwords. While we reported about a 50 percent improvement over a similar test we conducted in August 2001, we believe additional security awareness and emphasis are needed to reinforce security responsibilities of IRS employees.

Also, significant disaster recovery program weaknesses continue to be unresolved.⁶ Weaknesses which we reported include modernization systems being placed in production without a disaster recovery capability, insufficient disaster recovery capacity, roles and responsibilities not being assigned and employees not being trained; and annual tests not being conducted or not being effective.

³ *The Business Systems Development Organization Can Improve Management of Information Services Requests* (Reference Number 2005-20-004, dated October 28, 2004).

⁴ *The Business Systems Development Organization's Effective Process for Developing Information Systems Requirements Can Be Made More Efficient by Tracking and Analyzing Related Cost* (Reference Number 2005-20-061, dated May 9, 2005).

⁵ *While Progress Has Been Made, Managers and Employees Are Still Susceptible to Social Engineering Techniques* (Reference Number 2005-20-042, dated March 15, 2005).

⁶ *The Disaster Recovery Program Has Improved, but It Should Be Reported As a Material Weakness Due to Limited Resources and Control Weaknesses* (Reference Number 2005-20-024, dated March 1, 2005)

The TIGTA will continue to assess the IRS' efforts at managing security risks, including reviews of the IRS' computer security detection and prevention activities. Overall, the FY 2006 work planned in Information Systems Programs will position the TIGTA to meet the Federal Information Security Management Act⁷ and the IRS Restructuring and Reform Act of 1998 (RRA 98)⁸ requirements for reporting annually on the adequacy and security of IRS technology. A complete list of the Program's planned audits and audit objectives is included in Appendix X.

Headquarters Operations and Exempt Organizations Programs

The Headquarters Operations and Exempt Organizations Programs Unit evaluates several IRS programs, including Financial Management, the Government Performance and Results Act of 1993 (GPRA)⁹ the Criminal Investigation (CI) function, the Tax Exempt and Government Entities (TE/GE) Division, the Taxpayer Bill of Rights, the Agency-Wide Shared Services (AWSS) function, the Chief Human Capital Officer, the National Taxpayer Advocate, and a number of other functions. The TIGTA will be reviewing programs in each of these organizations.

The IRS' financial statements and related activities continue to be of concern to IRS stakeholders. Because of the significance of IRS collections to federal receipts and, in turn, to the consolidated financial statements of the Government and Congress' interest in financial management at the IRS, the Government Accountability Office (GAO) audits the IRS' financial statements annually to determine whether: 1) the financial statements the IRS prepares are reliable, 2) IRS management maintains effective internal controls, and 3) the IRS complies with selected provisions of significant laws and regulations and its financial systems comply with the Federal Financial Management Improvement Act of 1996.¹⁰

In its audit of the IRS' FY 2004 financial statements, the GAO concluded that the records were fairly presented in all material respects.¹¹ The GAO, however, identified some continuing serious deficiencies in the IRS' financial systems. The IRS continues to be challenged by control weaknesses and system deficiencies affecting financial reporting, unpaid tax assessments, tax revenue and refunds, and computer security. Even so, the GAO recognized the IRS' progress in some areas. For example, for the third consecutive year the IRS was able to meet an accelerated financial reporting date. This was very notable since the IRS was simultaneously working to implement new financial

⁷ E-Government Act of 2002, Pub. L. No. 107-347, Title III, Section 301, 2002.

⁸ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁹ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

¹⁰ Pub. L. No. 104-208, 110 Stat. 3009.

¹¹ *Financial Audit: IRS's Fiscal Years 2004 and 2003 Financial Statement* (GAO-05-103, dated November 10, 2004).

management systems. However, the IRS again had to rely extensively on resource-intensive compensating processes to prepare its financial statements. Without a financial management system that can produce timely, accurate, and useful information needed for day-to-day decisions, the IRS' financial stewardship responsibilities continue to be one of the largest challenges facing IRS management.

Along with financial accountability, the Federal Government has a stewardship obligation to prevent fraud, waste, and abuse and to use tax dollars appropriately. The Office of Procurement, a key partner in delivering the IRS mission, awards and manages obligations that amount to nearly 20 percent of the IRS budget. Most mission critical programs rely on contract support. Competitive sourcing, an initiative in *The President's Management Agenda*, will increase the Office of Procurement's workload. Additionally, congressional concerns have been raised regarding the propriety of payments to Government contractors. TIGTA audits have also identified some issues in the contract area. For example, a recent report¹² on the Integration Support Contract identified questionable award fees of over \$2 million and questionable charges which consisted of unsupported, unreasonable, and inaccurately recorded charges.

The CI function's mission is to serve the American public by investigating potential criminal Internal Revenue Code violations in order to foster confidence in the tax system. In 1999, an independent review of the function, headed by Judge William Webster, reported that the CI function was drifting from its mission. Beginning in FY 2002, the CI function began to turn around the downward trends from earlier years. Specifically, the number of subject investigations initiated increased, more time was spent directly on subject investigations, and fewer days were expended to discontinue a subject investigation. Many of the CI function's performance indicators continued to show improvement in FY 2003. While the number of subject investigations initiated and direct time spent on investigations decreased slightly, FY 2004 continued to show gains in the total numbers of subject investigations completed, prosecution referrals, pipeline investigations, indictments, convictions, and sentences imposed.

The CI function initiates investigations from many different sources, both from within and outside the IRS. During FY 2004, about 58.4 percent of subject investigations initiated came from the United States Attorney Offices (USAO) or other government agencies. In contrast, only 30.1 percent of subject investigations initiated came from within the IRS. Historically, internal IRS programs have been the primary sources of investigations involving pure tax violations. Between FYs 1999 and 2004, almost 60 percent of legal source investigations came from within the IRS. During FY 2004, 65.8 percent of legal source investigations and 47.4 percent of tax-related investigations came from internal IRS sources. On the other hand, almost two-thirds of the cases initiated from the USAO and other government agencies were nontax-related investigations. Further, the total number of tax and tax-related investigations initiated from FYs 2002 to 2004 declined by 12.3 percent. Since actions on criminal investigations may span more

¹² *Voucher Audit of the Integration Support Contract – TIRNO-92-C-00014* (Reference Number 2005-10-162, dated September 27, 2005).

than 1 year, the more recent decline in tax and tax-related investigations initiated may result in a decline in tax and tax-related convictions and sentences in later years.¹³

In an October 2003 letter to the TIGTA, the Senate Finance Committee outlined some concerns about the CI function's productivity. We recently completed a review to address one of the concerns about the CI function's efforts to increase legal source income tax investigations and concluded the CI function has made progress in increasing all tax-related investigations, but the level of legal source investigations did not materially change from FYs 1999 through 2004. The other concerns relating to the length of time to prepare and present a case to the Department of Justice for prosecution and the small number of investigations (as few as two) per special agent were taken into consideration when developing the FY 2006 Annual Audit Plan.

The IRS' TE/GE Division encompasses several organizations, including Employee Plans (EP); Exempt Organizations (EO); Indian Tribal Governments; Federal, State and Local Governments; Tax Exempt Bonds; and Customer Account Services. These organizations face many different types of issues, ranging from the safety of investments in employee plans to political activities of churches and gambling excise taxes. The overriding mission of each organization, however, is to provide top-quality service by helping each segment understand and comply with applicable tax laws and to protect the public interest by applying the tax law with integrity and fairness to all.

FY 2005 audits addressed each of these functional offices. For example, the TE/GE Division took several actions in 2004 to address potential political campaign intervention by tax exempt organizations including education and a special process to respond to referrals of potential political intervention. Although there were no identified cases of improperly handled information items, delays in classifying information items and the late publicity about the new process contributed to the allegations of improper motivation on the part of the IRS in examining this type of activity.¹⁴ Also, each of the TE/GE Division's functional offices has taken steps to improve their fraud programs and the TE/GE Division made several potential fraud referrals. However, most of the improvements and actions taken were recent, or were still in the process of being implemented.¹⁵ Finally, EP function specialists analyze determination letter applications to determine if pension plans are established in a manner that meets current laws. We determined sufficient research was conducted to assess the qualified status of determination applications, but controls were insufficient to manage the significant increase in application receipts. We also found quality assurance reviews have surfaced ongoing problems with the accuracy of determination letters; however, there were

¹³ *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 1999 Through Fiscal Year 2004* (Reference Number 2005-10-081, dated May 16, 2005).

¹⁴ *Review of the Exempt Organizations Function Process for Reviewing Alleged Political Campaign Intervention by Tax Exempt Organizations* (Reference Number 2005-10-35, dated February 17, 2005).

¹⁵ *The Tax Exempt and Government Entities Division Is Making Progress to Detect and Deter Fraud Within Its Customer Base, but the Impact Cannot Be Determined at This Time* (Reference Number 2005-10-161, dated September 30, 2005).

potential weaknesses in the peer review process that was designed to improve the quality of determination letters.¹⁶

Two important support functions within the IRS are the AWSS function and the Chief Human Capital Officer. The AWSS function covers a broad spectrum of activities, including facilities and records management, employee support services, equal employment opportunity and diversity, procurement, and competitive sourcing. The Chief Human Capital Officer oversees the workforce strategy of the agency. Human capital issues include workforce restructuring, workforce relations, recruiting, hiring, training and personnel policy. The IRS Strategic Plan states the IRS will realign its workforce to place more employees in “front-line” service, compliance, and enforcement positions. One strategy the IRS indicates it will use to achieve the resources needed for this increase is to reduce staffing and implement process improvements in areas such as its internal support functions. Both the AWSS and the Human Capital Office are in the process of streamlining their operations and reducing human resources support staff by a total of over 600 Full Time Equivalent employees.

The Human Capital Office is also overseeing the expansion of the IRS’ pay for performance system to front line managers. This plan, scheduled for implementation in September 2005, will move about 7,000 managers from the General Schedule pay system into a paybanding system. Paybanding is a system for grouping positions for pay, job evaluation, and other purposes by combining one or more grades and related ranges of pay into a single “band.” The Personnel Flexibilities provisions of RRA 98 required the IRS to develop a new Performance Management System (PMS) and authorized one or more paybanding systems covering all or any portion of the IRS workforce under the General Schedule.

Within the AWSS function, the Office of Competitive Sourcing oversees the IRS’ efforts to implement competitive sourcing under OMB Circular A-76. Competitive sourcing is the process for determining whether a commercial activity will be performed by a public or private source, and is also one of the five President’s Management Agenda initiatives. The IRS Learning and Education (L&E) functions were nominated for competitive sourcing in March 2003. The original scope of the L&E study encompassed approximately 617 positions. However, in February 2005, after spending nearly 2 years on the competitive sourcing study, the IRS decided to remove it from the process, and instead redefine and redesign the L&E activity to achieve up to a 40 percent savings. The design phase is expected to conclude no later than December 2005 with implementation of the new design by December 2006. It will revert back to the competitive sourcing process if these goals cannot be met. Another activity to undergo competitive sourcing was the distribution of forms and publications. In August 2004, the IRS awarded the competition for its Area Distribution to its own in-house team. The IRS estimated that its own in-house “Most Efficient Organization” will result in a 63 percent reduction in the workforce and a net savings of \$82.7 million over five years.

¹⁶ *Opportunities Exist for the Employee Plans Function to Improve the Timeliness and Accuracy of Merit Closure Determination Letters* (Reference Number 2005-10-127, dated August 25, 2005).

The Office of Audit also addresses IRS offices reporting directly to the IRS Commissioner, including the Taxpayer Advocate Service, Office of Chief Counsel, Office of Appeals, and Communications and Liaison. The National Taxpayer Advocate endeavors to identify and respond to taxpayer concerns, and advocates changes in law or procedures to reduce taxpayer burden while the Chief Counsel's strategic objective includes providing expanded guidance and increased legal support to IRS units. The Chief, Appeals' goal is to improve processes and resource allocation to "get the right work to the right employee" so that taxpayers receive a timely hearing. One major initiative to accomplish this is the centralization of some Appeals work in campus locations. The Governmental Liaison and Disclosure Division oversees the confidentiality rights of taxpayers while addressing the public's right to access information. For example, this office ensures that taxpayer information is not disclosed to third parties without proper authorization, information requested under the Freedom of Information Act¹⁷ is released, and taxpayers' rights are protected.

The TIGTA will assess operations in many of these offices during FY 2006. A complete list of the Program's planned audits and audit objectives is included in Appendix XI. Two audits address statutory requirements related to the IRS' financial statements and other financial reports. Another three are in response to the RRA 98 statutory reporting requirements.

Wage and Investment Income Programs

The IRS' Wage and Investment (W&I) Division serves approximately 122 million customers, accounting for 94 million returns. These taxpayers file a Form 1040 tax return with no accompanying Schedules C, E, F, or Form 2106 and have no international activity. Third parties report most of the income for this group, and the vast majority of taxes are collected through third-party withholding. Most of these taxpayers are highly compliant and deal with the IRS only when they file their tax returns. Compliance issues that do occur are often the result of a taxpayer's confusion and are usually detected through technology-based matching programs. Over half of these taxpayers prepare their own tax returns, presenting a great opportunity for the W&I Division to provide top quality service to a large number of taxpayers who otherwise would not receive assistance.

The W&I Division strives to maintain a "customer-first" focus through routinely soliciting information concerning the needs and characteristics of its customers and implementing programs based on the information received. It partners with other Federal agencies, financial institutions, tax preparers, trade organizations, community groups, State and local authorities, and others to provide one-stop multi-agency tax information and education services to its customers. The W&I Division attempts to increase voluntary compliance through its education and outreach programs, thus the

¹⁷ U.S.C.A. § 552 (West Supp. 2003).

W&I Division should be positioned to provide professional and courteous service to customers to help them understand and meet their tax obligations.

Every year, the IRS helps millions of taxpayers understand their obligations under the tax code by making information available on its Web site, answering questions on its toll-free telephone lines or in person at local offices, and responding to correspondence. Sometimes legislation is passed late in the calendar year and the IRS has to move quickly to get forms and publications as well as computer programs updated with new tax law information. For example, in October 2004, 2 pieces of legislation were enacted that included 11 additional provisions that affected W&I Division taxpayers for Tax Year (TY) 2004. Overall, the IRS successfully updated the tax forms, instructions, and publications relating to the new tax law provisions that affect W&I Division taxpayers' TY 2004 individual income tax returns.¹⁸

In addition, the IRS administers the Earned Income Tax Credit (EITC) Program, a refundable Federal income tax credit for low-income working individuals and families. In TY 2003, the IRS reported that approximately 21.7 million taxpayers received EITC totaling \$38.1 billion. The goals of the EITC office are to increase the number of eligible taxpayers who claim the credit and reduce the overall number of EITC refunds paid in error. The IRS estimated that between 27 and 32 percent of the \$31 billion in EITC claimed on TY 1999 returns should not have been paid. The IRS identifies taxpayers that misreport their income through an annual matching program which compares the information reported by third parties, such as employers and banks, with what was reported by taxpayers on their individual income tax returns. A recent report¹⁹ stated that a test by the IRS designed to help the IRS identify ways to ensure taxpayers claiming the EITC properly report their income, met the IRS' expectations.

The Office of Audit FY 2006 Annual Audit Program will address the W&I Division's attempts to meet its goals and objectives. In addition to assessing the W&I Division's pre-filing and filing season plus the status of compliance efforts, five planned audits will satisfy statutory requirements of the RRA 98. Another audit is in response to planned legislation.²⁰ A complete list of the Program's planned audits and audit objectives is included in Appendix XII.

Small Business and Corporate Programs

Like the W&I Division, the IRS' Small Business/Self-Employed (SB/SE) and the Large and Mid-Size Business (LMSB) Divisions also focus on helping taxpayers understand the tax laws, processing the tax returns, and enforcing compliance with the tax laws.

¹⁸ *Forms, Publications, and Computer Programming Requests Were Adequately Addressed and Updated in Most Instances for the 2005 Filing Season* (Reference Number 2005-40-094, dated June 3, 2005).

¹⁹ *The Earned Income Tax Credit Income Verification Test Was Properly Conducted* (Reference Number 2005-40-093, dated May 27, 2005).

²⁰ H.R. 3058, part of the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006.

Unlike taxpayers served by the W&I Division, these taxpayers usually have much more frequent contact with the IRS, and these contacts are usually more unique and complicated. The IRS, nevertheless, strives to provide top quality service to each taxpayer in every interaction.

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

The LMSB Division serves a small group of taxpayers – less than 200,000 corporations, subchapter S corporations, and partnerships with assets greater than \$10 million. Many of the taxpayers in this group have a tax staff, and the issues the IRS faces in its contacts with these taxpayers are much more complicated than its dealings with the W&I and SB/SE taxpayers. For example, the IRS must effectively deal with globalization, abusive tax shelters, offshore tax havens, and industry specialization. Some of these issues are extremely difficult to address. Abusive tax shelters, for instance, are estimated to be a \$10 billion tax issue, and transactions are frequently legally complex and dependent on exploitation of legal loopholes.

The Divisions are endeavoring to revise their compliance program by reengineering the collection and examination processes. Some improvements have been noted. For example, the level of compliance activities and the results obtained in many Collection function areas in FY 2004 showed a continued increase and the number of Collection function field staff increased slightly. However, a significant number of accounts were removed from collection inventory and may never be worked. The IRS recently received authority and will begin testing the use of contract staff to work some Collection cases. It is too early to tell if the contract resources will be able to resolve a significant number of cases or whether they will continue to go unresolved.

Examination function staffing increased during FY 2004, as did the percent of tax returns examined. The increase was mainly due to increases in correspondence examinations of tax returns for individuals, which are conducted by mailing notices to the taxpayer and are usually not as comprehensive as face-to-face examinations. While the number of examinations of individuals increased overall during FY 2004, a larger increase occurred in the coverage rate of individuals earning \$100,000 or more than for those earning less than \$100,000. The number of examinations of corporate tax returns continued the decrease that started in FY 1997, decreasing a total of 75 percent since that time. The total number of tax returns examined decreased from 1 out of 52 returns

filed in FY 1997 to 1 out of 245 returns filed in FY 2004. This trend did turn around for examinations of larger corporations though. The number of examinations for corporate tax returns with assets \$10 million and greater increased 34 percent during FY 2004.

During the last few years, the IRS has been implementing reengineering suggestions aimed at increasing effectiveness of enforcement efforts. Despite steps the IRS has taken to improve its enforcement efforts, the GAO continues to regard enforcement of tax laws as 1 of the 25 high-risk areas in the Federal Government in its January 2005 update. The President's proposed FY 2006 budget also addresses the issue by providing additional funds for enforcement resources.²¹

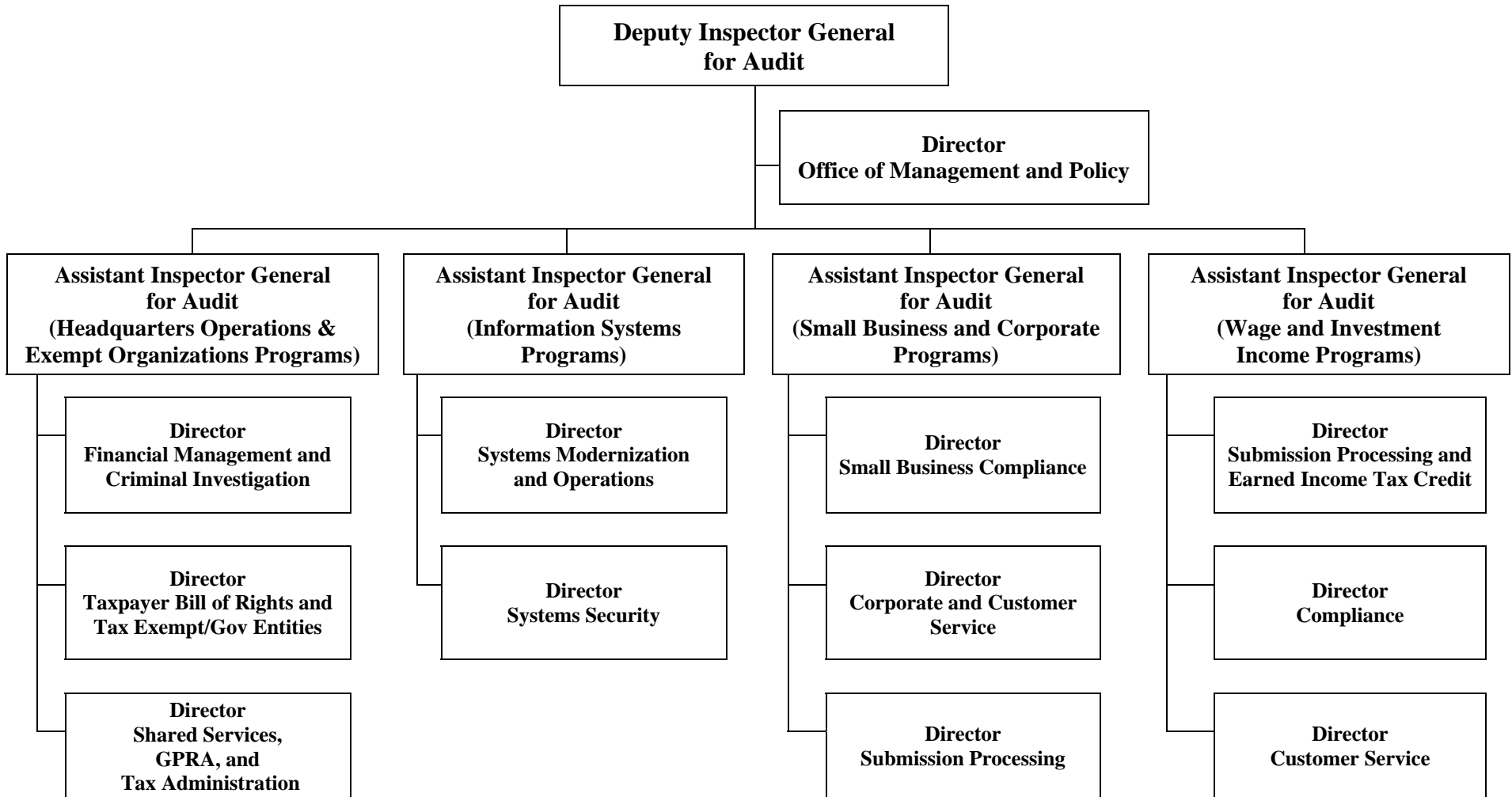
Like the SB/SE Division, the LMSB Division has made some strides in reengineering its processes. At the IRS, as in other Federal Government agencies, implementing a performance management system is a critically important endeavor. Among other things, agency managers need to establish processes that promote teamwork and organizational success by integrating individual performance with agency goals. Since the LMSB Division's work primarily relates to enhancing enforcement of the tax law, the primary objective of the Industry Case Program, and the responsibility of examiners and team managers, is to conduct timely, quality examinations of selected tax returns. To assist examiners and team managers in meeting their responsibilities, the LMSB Division defines and measures quality against four standards and uses cycle time to monitor the timeliness of examinations. The LMSB Division's performance management system provides direct links from the IRS mission and goals down to the appraisal processes for examiners and team managers in the Industry Case Program. Actions have also been taken to enhance the performance management system for team managers. However, there are areas in the appraisal processes of Industry Case examiners that could be strengthened to reinforce the importance of adhering to LMSB Quality Management System standards and completing examinations more timely.²²

Both the SB/SE and the LMSB Divisions, however, continue to face challenges in administering programs that deal with tax gap issues, especially those resulting from corporate and high-income individual taxpayer corrosive activities as well as domestic and off-shore tax and financial criminal activity. During FY 2006, the TIGTA's Small Business and Corporate Programs Unit will concentrate on assessing the IRS' efforts to deal with these and other issues. Three audits will address statutory requirements of the RRA 98. A complete list of the Program's planned audits and audit objectives is included in Appendix XIII.

²¹ *Trends in Compliance Activities Through Fiscal Year 2004* (Reference Number 2005-30-055, dated March 30, 2005).

²² *Performance Management in the Large and Mid-Size Business Division's Industry Case Program Needs Strengthening* (Reference Number 2005-30-084, dated May 27, 2005).

Organization Chart
Treasury Inspector General for Tax Administration Office of Audit



Major Management Challenges Facing the Internal Revenue Service

The Treasury Inspector General for Tax Administration (TIGTA) believes the major management challenges facing the Internal Revenue Service (IRS) in Fiscal Year 2006 are:

- ❖ Modernization of the Internal Revenue Service.
- ❖ Tax Compliance Initiatives.
- ❖ Security of the Internal Revenue Service.
- ❖ Complexity of the Tax Law.
- ❖ Using Performance and Financial Information for Program and Budget Decisions.
- ❖ Providing Quality Taxpayer Service Operations.
- ❖ Erroneous and Improper Payments.
- ❖ Taxpayer Protection and Rights.
- ❖ Processing Returns and Implementing Tax Law Changes During the Tax Filing Season.
- ❖ Human Capital.

The TIGTA's FY 2005 annual summary of these issues, including comments on progress the IRS has made toward resolving the challenges or the vulnerabilities that the IRS continues to face in achieving results, may be viewed on the Internet at the following address:

http://www.treas.gov/tigta/oa_management.shtml

The Internal Revenue Service's
Strategic Goals and Objectives¹

IRS Strategic Plan 2005-2009		
Goal 1 - Improve Taxpayer Service	Goal 2 – Enhance Enforcement Of The Tax Law	Goal 3 –Modernize the IRS Through Its People, Processes and Technology
<p>Objectives:</p> <ul style="list-style-type: none"> • Improve service options for the tax paying public • Facilitate participation in the tax system by all sectors of the public • Simplify the tax process 	<p>Objectives:</p> <ul style="list-style-type: none"> • Discourage and deter noncompliance with emphasis on corrosive activity by corporations, high-income individual taxpayers and other contributors to the tax gap • Ensure that attorneys, accountants and other tax practitioners adhere to professional standards and follow the law • Detect and deter domestic and off-shore based tax and financial criminal activity • Deter abuse within tax-exempt and governmental entities and misuse of such entities by third parties for tax avoidance or other unintended purposes 	<p>Objectives:</p> <ul style="list-style-type: none"> • Increase organizational capacity to enable full engagement and maximum productivity of employees • Modernize information systems to improve service and enforcement • Ensure the safety and security of people, facilities and information systems • Modernize business processes and align the infrastructure support to maximize resources devoted to frontline operations

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

The President's Management Agenda **Improving Government Performance**

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

To reform Government, we must rethink Government.

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

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

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

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

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

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

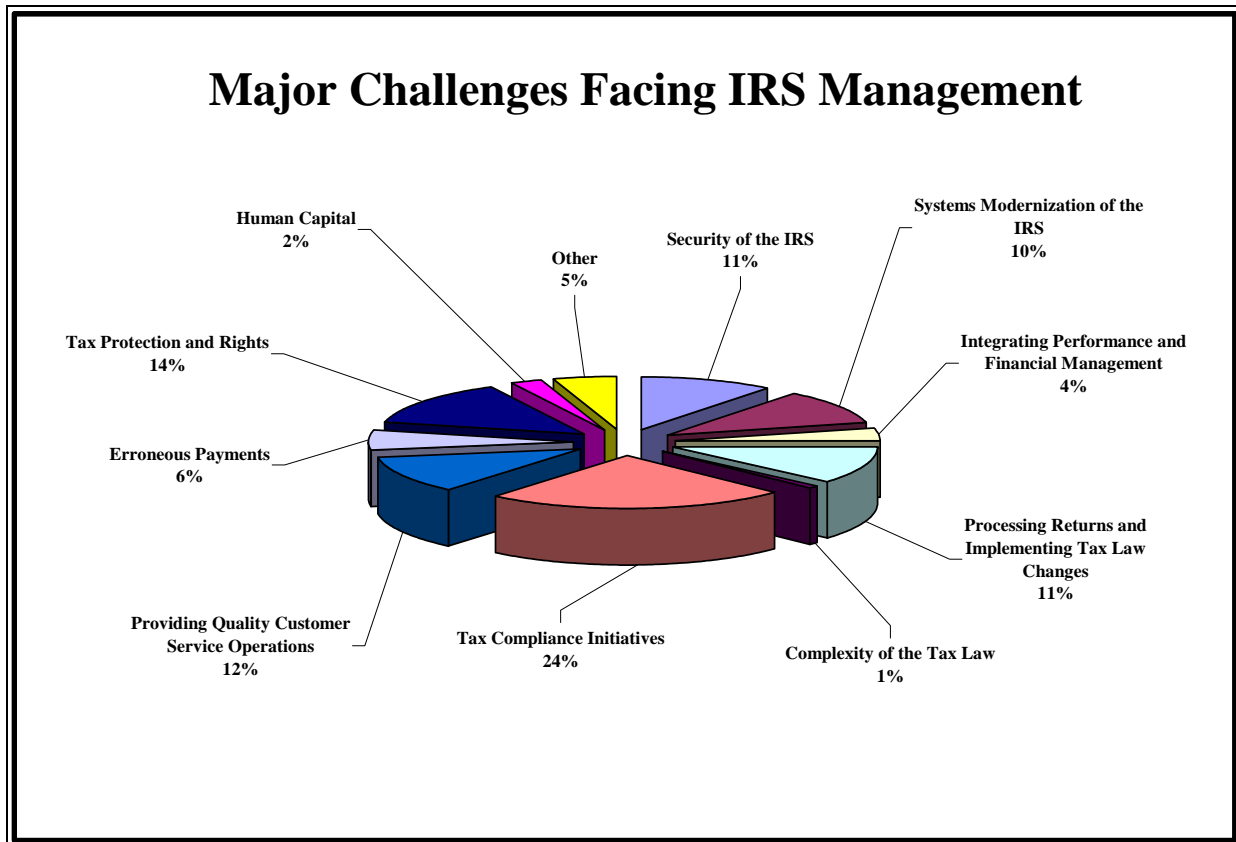
- Additional goals will be undertaken, as tangible improvements are made in this initial set of initiatives....¹

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

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

¹ *The President's Management Agenda, Fiscal Year 2002;*
[HTTP://WWW.WHITEHOUSE.GOV/OMB/BUDINTEGRATION/PMA_INDEX.HTML](http://www.whitehouse.gov/omb/budintegration/pma_index.html) .

Office of Audit's Fiscal Year 2006 Staff Day Allocation By Major Challenges Facing Internal Revenue Service Management



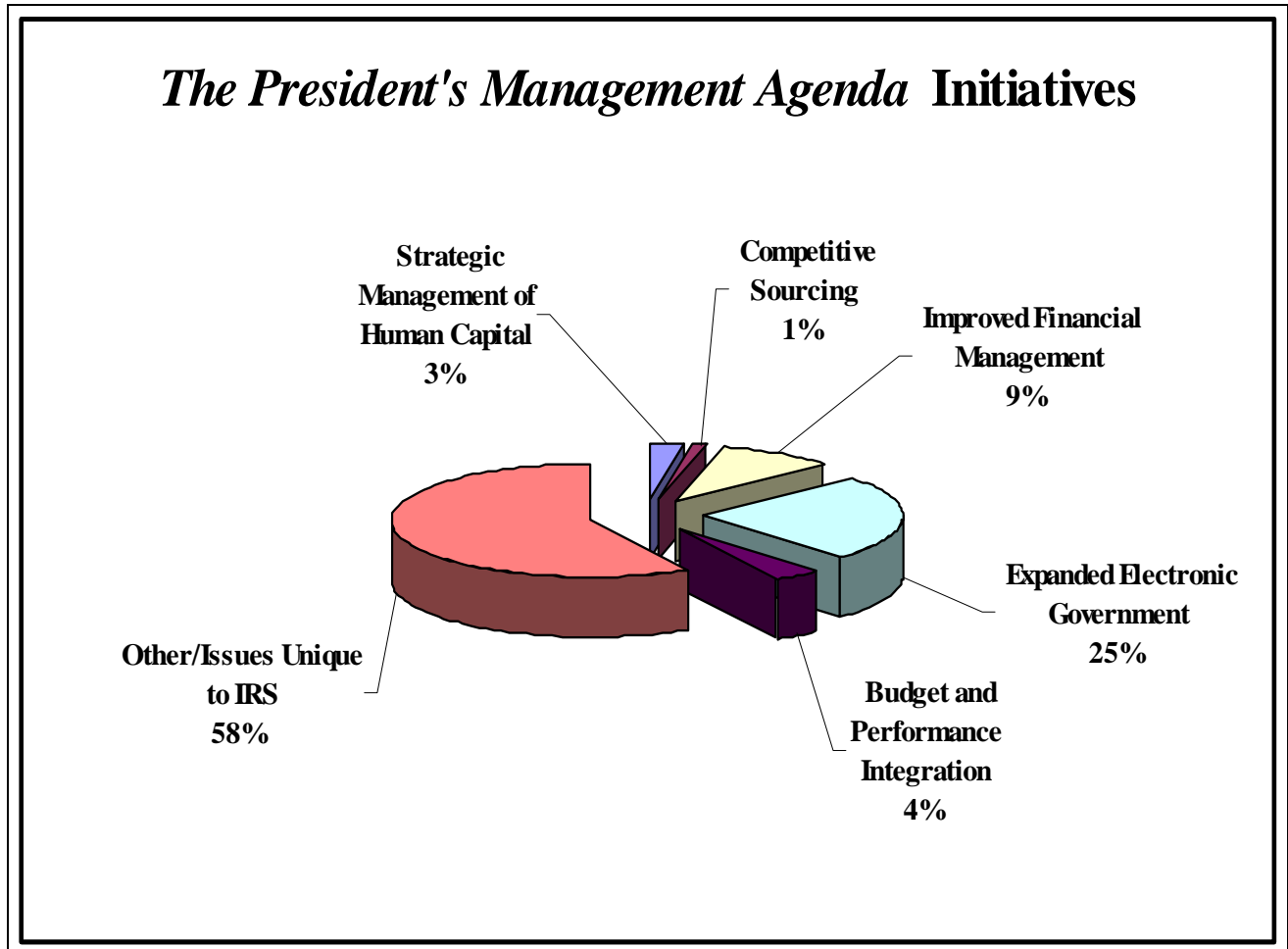
Note: Some audits relate to more than one major challenge area. In addition, Fiscal Year (FY) 2006 staff days are included for audits that were started in FY 2005 with planned completion dates in FY 2006.

Office of Audit's Fiscal Year 2006 Staff Day Allocation By Internal Revenue Service Strategic Plan Goals



Note: Some audits relate to more than one strategy area. In addition, Fiscal Year (FY) 2006 staff days are included for audits that were started in FY 2005 with planned completion dates in FY 2006.

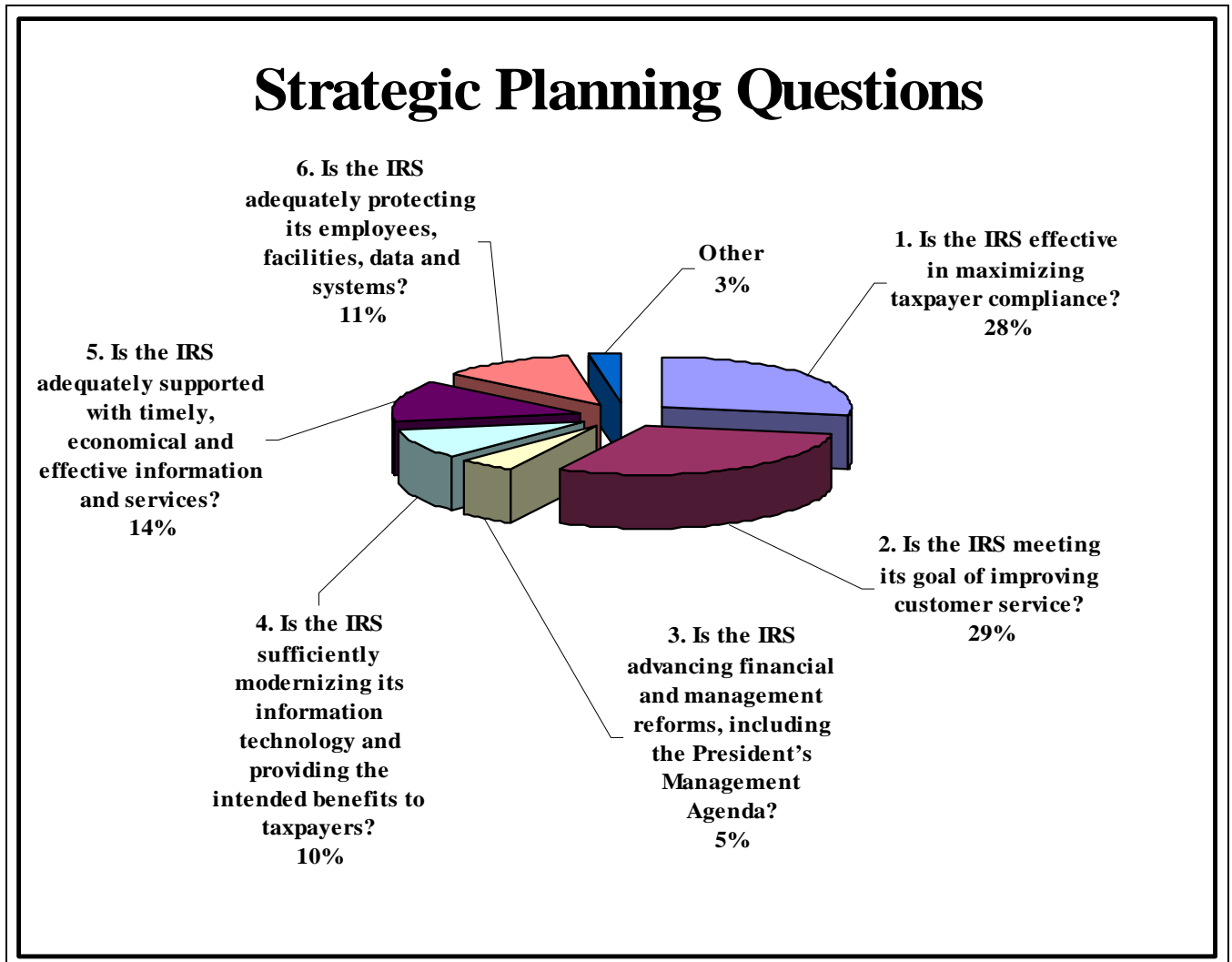
Office of Audit's Fiscal Year 2006 Staff Day Allocation By
*The President's Management Agenda Initiatives*¹



Note: Fiscal Year (FY) 2006 staff days are included for audits that were started in FY 2005 with planned completion dates in FY 2006.

¹ Fiscal Year 2006 audits have been categorized, as appropriate, under *The President's Management Agenda* initiatives. The audits that do not relate to *The President's Management Agenda* are categorized as "Other/Issues Unique to IRS."

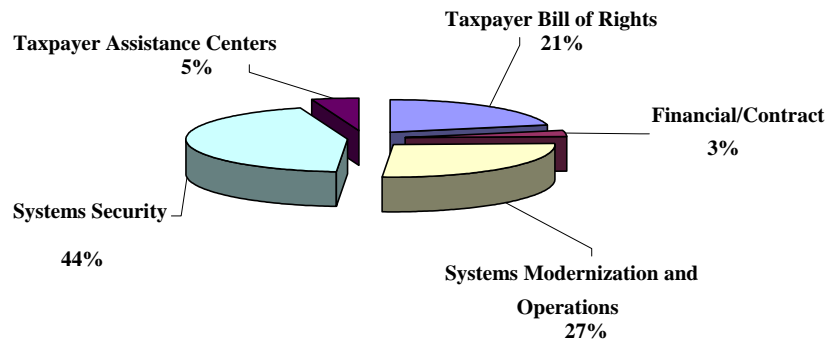
Office of Audit's Fiscal Year 2006 Staff Day Allocation By Strategic Planning Questions



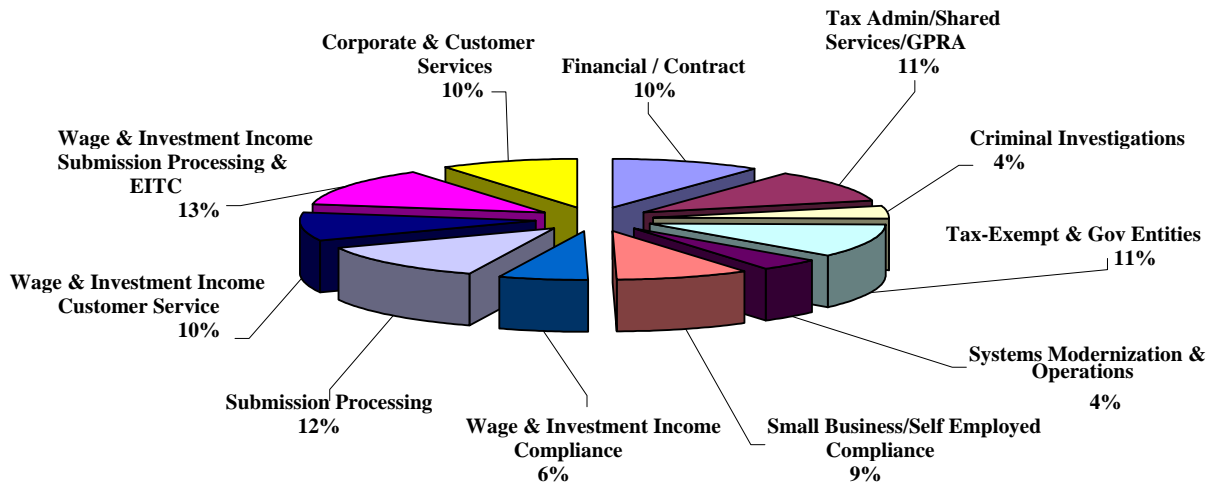
Note: Fiscal Year (FY) 2006 staff days are included for audits that were started in FY 2005 with planned completion dates in FY 2006.

Office of Audit's Fiscal Year 2006 Staff Day Allocation By Statutory and Discretionary Audits

Statutory Coverage (26.8%)



Discretionary Coverage (73.2%)



Note: Fiscal Year (FY) 2006 staff days are included for audits that were started in FY 2005 with planned completion dates in FY 2006.

List of Planned Audits for Fiscal Year 2006 Information Systems Programs

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

Filing and Payment Compliance Project Review (Statutory Audit)

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

Program Management Transition from the PRIME² Contractor to the Business Systems Modernization Office (Statutory Audit)

Audit Objective: Determine whether the BSMO is sufficiently planning, identifying, and acquiring the necessary resources for its new role as systems integrator and other program management activities being moved to the BSMO from the PRIME.

Annual Business Systems Modernization Assessment (Statutory Audit)

Audit Objective: Review the progress of the Business Systems Modernization (BSM) Program as required by the RRA 98.

Role and Cost of the Federally Funded Research and Development Center in the Business Systems Modernization Program (Statutory Audit)

Audit Objective: Determine the effectiveness of IRS' use of the Federally Funded Research and Development Center in the BSM Program.

Establishment of the Enterprise Services Organization (Statutory Audit)

Audit Objective: Review the establishment and stand-up of the Enterprise Services Organization.

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

² The Prime Systems Integration Services Contractor (PRIME) is the contract under which Computer Sciences Corporation is responsible for designing new systems to meet IRS business needs, developing these systems, integrating them into the IRS, and ultimately transferring operation of these systems to the IRS.

Contracting Processes (Follow-up) (Statutory Audit)

Audit Objective: Determine the adequacy of the BSMO contract negotiation and development activities.

Customer Account Data Engine Project Review (Statutory Audit)

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

Modernized E-File Development Project Review (Statutory Audit)

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

Establishment of the Requirements Management Office (Statutory Audit)

Audit Objective: Review the establishment and stand-up of the Requirements Management Office.

Accounting for Business Systems Modernization Funding (Statutory Audit)

Audit Objective: Determine whether the IRS is using proper accounting methodologies in accounting for BSM funding requests and expenditures.

Business Systems Development Testing Processes

Audit Objective: Review the adequacy and effectiveness of Business Systems Development testing processes.

Infrastructure Shared Services Program Review (Statutory Audit)

Audit Objective: Review the adequacy of the development and maintenance of the modernized infrastructure including disaster recovery capabilities and the Modernization Technology Refresh activities.

Enterprise Operations Use of Contractors

Audit Objective: Review the effectiveness of Enterprise Operations management of contractors.

IRS' Use of Telecommunications Services Offered through the Department of the Treasury Contract

Audit Objective: Determine whether the IRS is making appropriate use of the Department of the Treasury Contract for procuring needed telecommunications services.

Quality Metrics and Resource Allocation

Audit Objective: Determine whether the Modernization & Information Technology Services organization is taking actions to set consistent quality metrics that are industry benchmarked for quality and satisfaction.

Status of Legacy Systems and Aging Infrastructure

Audit Objective: Determine the viability of the IRS' Legacy Systems, including the cost associated with outages caused by aging infrastructure applications and the lack of redundancy/business resumption capability for critical systems.

Task Order Audit: Architecture and Integration (Statutory Audit)

Audit Objective: Determine whether the IRS is receiving full value from the contractor under the terms and conditions of the Architecture and Integration Task Order.

Federal Information Security Management Act (Statutory Audit)

Audit Objective: Evaluate the IRS' compliance with security measures required by the Federal Information Security Management Act.

Security Over Health and Human Services Data (Statutory Audit)

Audit Objective: Determine whether the IRS' Criminal Investigation Division is adequately protecting Health and Human Services (HHS) data as required by the Memorandum of Understanding between the IRS and the HHS.

Mission Assurance & Security Services Responsibilities (Statutory Audit)

Audit Objective: Evaluate the effectiveness of Mission Assurance & Security Services in achieving its stated mission and meeting its goals.

Mission Assurance & Security Services Office of Privacy (Statutory Audit)

Audit Objective: Determine whether the IRS is adhering to privacy policies and is adequately protecting the identity of taxpayers in its programs and systems.

Homeland Security Presidential Directive-12 Personal Identification Verification (Statutory Audit)

Audit Objective: Determine whether the IRS has taken adequate actions to comply with Homeland Security Presidential Directive-12.

Background Investigations (Statutory Audit)

Audit Objective: Determine the timeliness and effectiveness of the background investigation program for both employees and contractors.

Sensitive Data Stored on Electronic or Optical Media (Statutory Audit)

Audit Objective: Determine whether the IRS is adequately protecting sensitive data on laptop computers and electronic/optical media.

Internet Gateways (Statutory Audit)

Audit Objective: Determine whether firewalls, routers, and intrusion detection system configurations are adequate to prevent and detect unauthorized persons from entering the IRS network.

Wireless (Follow-up) (Statutory Audit)

Audit Objective: Determine whether IRS assets are at risk from the use of wireless network devices.

Critical Infrastructure Protection (Statutory Audit)

Audit Objective: Determine whether the IRS has identified, prioritized, and protected critical assets.

Infrastructure Components and Services (Statutory Audit)

Audit Objective: Determine whether IRS systems allow for the use of insecure and prohibited file transfer protocols.

Security over Remote Systems Administration (Statutory Audit)

Audit Objective: Determine whether controls over remote systems administration are adequate to prevent unauthorized accesses.

Modernization Audit Trails (Statutory Audit)

Audit Objective: Determine whether audit logs for modernization systems are being generated, saved, and analyzed.

Database Controls (Statutory Audit)

Audit Objective: Determine whether the IRS has adequate policies and procedures for database security controls and whether those policies and procedures have been implemented.

IRS Electronic Mail System (Statutory Audit)

Audit Objective: Determine whether the IRS' email system is secure and used properly, and whether messages are archived as required.

Online Integrated Data Retrieval System Violation Reports (Statutory Audit)

Audit Objective: Determine whether managers are adequately monitoring Integrated Data Retrieval System Violation Reports.

Capital Expenditures (Statutory Audit)

Audit Objective: Determine whether IRS business cases are prepared accurately and comply with Office of Management and Budget (OMB) and Treasury guidance.

Computer Security Material Weaknesses (Statutory Audit)

Audit Objective: Determine whether the IRS has taken sufficient actions to downgrade its computer security material weakness.

Patch Management Capping Report (Statutory Audit)

Audit Objective: Provide an assessment of IRS actions to improve its patch management.

Internet Protocol Version 6 (Statutory Audit)

Audit Objective: Determine whether the IRS has made adequate preparations to comply with OMB requirements to convert to Internet Protocol version 6.

List of Planned Audits for Fiscal Year 2006 Headquarters Operations and Exempt Organizations Programs

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

Voucher/Invoice Audits - Various Contractors

Audit Objective: Determine whether selected vouchers submitted and paid under the contract were appropriate and in accordance with the contract's terms and conditions.

Assistance to Contract Fraud Investigations

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

Defense Contract Audit Agency Contract Oversight (Statutory Review)

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

Federal Financial Management Improvement Act of 1996 Remediation Plan (Statutory Review)

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

Working Capital Fund

Audit Objective: Evaluate the cost allocation process and determine the relative value of services received by the IRS.

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

Automated Trust Fund Recovery Program

Audit Objective: Determine the effectiveness of IRS processes to accurately account for Trust Fund Recovery revenue.

Federal Agency Employment Tax Delinquencies

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

Reimbursement of Administrative Expenses for Processing Federal Unemployment Tax Act and Federal Insurance Contribution Act Taxes

Audit Objective: Determine if corrective actions taken by IRS accurately account for reimbursable expenses.

Trends in Criminal Investigation Activities Fiscal Years 2000-2005

Audit Objective: Provide statistical and trend information and analysis of Criminal Investigation activities.

Fraud Detection Centers - Questionable Refund Program

Audit Objective: Determine the effectiveness of IRS processes to detect and prevent fraudulent refunds.

Fraud Detection Centers - Return Preparer Program

Audit Objective: Determine the effectiveness of IRS processes to identify unscrupulous preparers.

E-Crimes Program

Audit Objective: Evaluate controls over electronic data seized by the IRS and processes used to ensure timely criminal investigative results.

Parallel Investigations

Audit Objective: Determine if IRS criminal and civil actions proceed timely and orderly, and protect taxpayer rights.

Effectiveness of the Office of Research, Analysis and Statistics

Audit Objective: Evaluate whether the Research, Analysis and Statistics function is appropriately structured and provides valid, accurate and timely information.

Freedom of Information Act Denials (Statutory Review)

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

Appeals -- Collection Due Process (Statutory Review)

Audit Objective: Evaluate the IRS' compliance with legal provisions when taxpayers exercised their right to appeal lien or levy actions.

Validation of Cost Savings

Audit Objective: Evaluate the IRS' process for identifying and tracking savings associated with competitive sourcing projects.

Appeals -- Campus Operations

Audit Objective: Evaluate the quality and effectiveness of Appeals' new centralized campus operations.

Chief Counsel -- Advance Case Resolution Program

Audit Objective: Evaluate the administration of the Advance Case Resolution Program.

Office of Professional Responsibility -- Enrolled Agent Program

Audit Objective: Evaluate the effectiveness of the Office of Professional Responsibility's administration of the Enrolled Agent Program.

Taxpayer Advocate Service -- Operations Assistance Requests

Audit Objective: Evaluate the responsiveness of the IRS Operating Divisions in assisting the Taxpayer Advocate Service to resolve taxpayer problems.

Taxpayer Complaints (Statutory Review)

Audit Objective: Determine the IRS' progress in improving the process for identifying and reporting taxpayers' complaints for the TIGTA semiannual report.

Human Capital Office Resource Optimization Study

Audit Objective: Evaluate the reorganization which resulted from the Resource Optimization Study and the realignment of staff to “front-line” service, compliance, and enforcement positions.

Enterprise Learning Management System

Audit Objective: Evaluate the reliability and usefulness of the information in the Enterprise Learning Management System.

Government Performance and Results Act

Audit Objective: Determine if the IRS’ Strategic and Annual Plans fully address the priorities of the IRS and meet all of the requirements of the Government Performance and Results Act and Office of Management and Budget’s “Preparation, Submission and Execution of the Budget” (OMB Circular No. A-11.)

Removal of Learning and Education from Competitive Sourcing

Audit Objective: Evaluate the IRS’ decision to remove Learning and Education from competitive sourcing.

Implementation of Paybanding

Audit Objective: Determine how effective the IRS’ pay banding system has been at linking pay to performance.

Review of IRS’ Migration to Electronic Travel Services

Audit Objective: Evaluate the costs and benefits of converting the IRS to the new Electronic Travel Services.

Review of the Public Transportation Subsidy Program

Audit Objective: Evaluate whether the IRS’ Public Transportation Subsidy Program is properly monitored, and efficiently and economically administered.

***Tax Exempt Determination System Processing of Employee Plans
Determination Letters***

Audit Objective: Determine whether the Tax Exempt Determination Systems' functionality has achieved the purpose of improving the screening of Employee Plans (EP) Determinations applications in an automated environment.

Implementation of the Employee Plans Compliance Unit

Audit Objective: Determine the adequacy of the EP function's efforts to implement the Employee Plans Compliance Unit (EPCU) and whether the EP function has controls to effectively manage EPCU projects.

***Statistical Analysis of the Employee Plans Function's Enforcement
Activities***

Audit Objective: Review relevant statistical data of the EP function's enforcement activities for Fiscal Year (FY) 2002 to 2005 and analyze the data for trends.

***Employee Plans Function's Process for Evaluating Referrals of
Noncompliance***

Audit Objective: Assess the EP function's process for evaluating and prioritizing referrals of noncompliance to ensure high risk referrals are worked.

Impact of the Employee Plans Function's Focused Examination Initiative

Audit Objective: Assess the impact of the focused examination initiative on examination goals, performance measures, and enforcement results, and determine whether the initiative has been consistently implemented nationwide.

***Exempt Organizations Function's Efforts to Address Excessive Executive
Compensation***

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

Exempt Organizations Function's Oversight of Tax Exempt Organizations Involved With Hurricane Katrina Relief

Audit Objective: Assess the adequacy of the EO function's efforts to ensure new tax exempt organizations providing assistance to individuals affected by Hurricane Katrina have been properly approved and that referrals of potentially abusive charitable organizations are given priority treatment.

Exempt Organizations Function's Efforts to Address Credit Counseling Abuses

Audit Objective: Assess the EO function's efforts to address abusive activities by tax exempt credit counseling agencies.

Statistical Analysis of the Exempt Organizations Function's Enforcement Activities

Audit Objective: Review relevant statistical data of the EO function's enforcement activities for Fiscal Year (FY) 2002 to 2005 and analyze the data for trends.

Processing Tax Exempt Bond Payments to the 6400 General Ledger Account

Audit Objective: Determine if settlement payments from Internal Revenue Code Section 6700 examinations and the Voluntary Closing Agreement Program were appropriately processed to the 6400 General Ledger Account at the Ogden Submission Processing Center.

Use of Error Account Closures in the Tax Exempt Bond Office

Audit Objective: Determine if actions to close Tax Exempt Bond examinations by the use of Disposal Code 33 (Opened in Error) and re-establish the cases as new examinations were appropriate and complied with IRS guidelines.

Statistical Portrayal of the Indian Tribal Governments Office's Enforcement Activities

Audit Objective: Review relevant statistical data of the Indian Tribal Governments (ITG) Office's enforcement activities for FYs 2002 to 2005 and analyze the data for trends.

Indian Tribal Governments Office's Tip Compliance Program

Audit Objective: Determine if the implementation of the ITG Office's Tip Compliance Program is consistent with the IRS' Tip Compliance Program and if it is administered effectively to identify and secure Tip rate agreements for tribal entities.

Federal, State, and Local Governments Office's Efforts to Identify Its Customers (Follow-up)

Audit Objective: Assess the effectiveness of Federal, State, and Local Governments (FSLG) management's corrective actions to accurately identify FSLG customers.

Federal, State, and Local Governments Office's Efforts to Develop a Workload Selection System

Audit Objective: Assess the FSLG office's progress in developing a workload selection system that identifies and prioritizes the compliance activity cases with the highest risk of noncompliance.

Capping Report: Tax Exempt and Government Entities Division Customer Account Services Function's Service to Customers

Audit Objective: Assess the Tax Exempt and Government Entities (TE/GE) Division Customer Account Services function's service to customers in providing timely, accurate, and complete information that meets the needs of TE/GE Division customers.

Effectiveness of the Tax Exempt and Government Entities Division's Oversight for User Fee Payment Processing

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

List of Planned Audits for Fiscal Year 2006 Wage and Investment Income Programs

Five of the planned audits for the Wage and Investment Income Programs Unit are in response to the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ statutory reporting requirements. One other audit is in response to H.R. 3058, part of the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006.

Internal Controls Over Processing Payments in the Teller Units

Audit Objective: Determine if internal controls over processing payments at teller units are sufficient to prevent loss, theft, or embezzlement.

Stakeholder Partnerships, Education and Communications' Effect on Voluntary Compliance

Audit Objective: Determine if Stakeholder Partnership, Education and Communications can measure the effect of its outreach and education on taxpayer compliance.

Taxpayer Experience with Tax Law Assistance 2006 Filing Season

Audit Objective: Determine the quality of customer service the IRS provides taxpayers that seek assistance with tax law questions.

End-to-End Publishing

Audit Objective: Determine if End-To-End Publishing fosters standardization, reduces duplication of effort, and minimizes manual steps in the development, publishing, and distribution process.

Field Assistance 2006 Filing Season Readiness

Audit Objective: Determine if the W & I Division Field Assistance Office has adequately planned for the 2006 Filing Season.

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

Toll-Free Access 2006 Filing Season

Audit Objective: Evaluate toll-free telephone access during the 2006 Filing Season including the effect of customer service consolidations.

Picture Them at Home

Audit Objective: Identify the best practices of the “Picture Them at Home” Program and determine if opportunities exist to expand the Program to assist in the recovery of missing children and promote tax compliance.

Taxpayer Assistance Center Closure Model (Statutory Review)

Audit Objective: Determine if the Taxpayer Assistance Center (TAC) Closure Model effectively achieves the IRS goal of identifying which TACs to close.

Volunteer Income Tax Assistance - 2006 Filing Season (Follow-up)

Audit Objective: Determine if Volunteer Income Tax Assistance sites are accurately preparing tax returns and adequately providing privacy and security over taxpayer data.

Wage and Investment Division Electronic Customer Service Strategy

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

Tax Law Changes Impacting Tax Returns

Audit Objective: Determine if the W&I Division accurately updated tax forms, publications and computer programming related to tax law changes that affect Tax Year 2005 individual income tax returns.

2006 Filing Season Implementation

Audit Objective: Determine if the W&I Division timely and accurately processed individual paper and electronic tax returns during the 2006 Filing Season, and if the W&I Division took effective corrective actions to conditions reported in previous audits.

Impact of the Elimination of Telefile

Audit Objective: Determine if the W&I Division has plans to reduce both the burden to taxpayers affected by the elimination of Telefile and to promote the use of alternative electronic filing sources for the 2006 Filing Season.

Implementation of Updated Customer Account Data Engine Release

Audit Objective: Determine if the Customer Account Data Engine accurately and timely handles the additional workload of Forms 1040 and 1040A, along with other changes to the software programs.

Barriers to Increasing Electronic Filing

Audit Objective: Determine if the IRS' strategy towards making electronic submission the preferred means for filing individual income tax returns has been affected by less stringent internal controls that may be in existence for processing paper tax returns at the IRS Submission Processing Centers.

Tax Implications of the Aging Population

Audit Objective: Determine if the Wage and Investment Division has a strategy to address the needs of the aging population and the impact of increasing retirement and pension incomes, medical expense deductions, and other tax issues related to the aging of the population.

Identity Theft of Dependent Social Security Numbers

Audit Objective: Determine if the IRS has adequate controls in place to identify the potential identity theft of dependent Social Security Numbers and prevent the claiming of fraudulent tax credits and exemptions.

Accuracy of Individual Income Tax Credits

Audit Objective: Determine if the W&I Division has sufficient controls to ensure tax credits claimed on individual income tax returns are accurate.

Processing Applications for Tentative Refunds

Audit Objective: Determine if the IRS timely processes individual Applications for Tentative Refund (Form 1045) to avoid payment of unnecessary interest.

Assessment of the User Fee Program in the Wage & Investment Division

Audit Objective: Determine if the IRS is fully utilizing user fees for special services to W&I taxpayers, and accurately accounting for W&I user fees already in place.

Assessment of Alternative Minimum Tax

Audit Objective: Determine if IRS computer systems accurately identify and compute the Alternative Minimum Tax (AMT) for taxpayers who may be required to pay AMT, or those who claim AMT but may not be required to pay.

Processing of Undelivered Refunds

Audit Objective: Determine if the IRS takes reasonable actions necessary to resolve undeliverable refund conditions, and that the actions taken are efficient and effective.

Impact of Customer Account Services Consolidation

Audit Objective: Determine if the IRS has successfully leveraged the consolidation of Customer Account Services functions to produce cost and resource savings.

Effectiveness of the Correspondence Imaging System

Audit Objective: Determine if the Correspondence Imaging System is meeting the expected accuracy and production goals and achieving the expected cost savings.

Implementation of New Earned Income Tax Credit Programs

Audit Objective: Determine if the IRS has successfully implemented new Earned Income Tax Credit programs based on Proof of Concept tests conducted during the past 3 years.

Withholding Compliance

Audit Objective: Evaluate the actions taken to ensure that the Withholding Compliance Program is an effective first step in establishing voluntary compliance across the taxpayer population.

Taxpayer Awareness of Installment Agreements

Audit Objective: Evaluate the IRS' process for ensuring that taxpayers are aware of their option for paying delinquent taxes through installment agreements.

Installment Agreements User Fees

Audit Objective: Evaluate the effectiveness of controls over processing installment agreement user fees and correcting duplicate fees.

Implementation of Improper Payment Information Act

Audit Objective: Evaluate whether the current process is effectively identifying and reducing erroneous payments.

Collection Statute Expiration Dates

Audit Objective: Evaluate the IRS' process for ensuring that Collection Statute Expiration Dates are correctly calculated.

Restrictions on the Use of Enforcement Statistics (Statutory Review)

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

Taxpayer Designations - Illegal Tax Protester and Non-filer Designation (Statutory Review)

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

Assessment Statute Extensions (Statutory Review)

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

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

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

Restrictions on Directly Contacting Taxpayers (Statutory Review)

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

List of Planned Audits for Fiscal Year 2006 Small Business and Corporate Programs

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

Seizures (Statutory Review)

Audit Objective: Determine whether seizures conducted by the IRS comply with legal guidelines set forth in the Internal Revenue Code (IRC) and with the IRS' own internal guidelines.

Liens (Statutory Review)

Audit Objective: Determine whether liens issued by the IRS comply with legal guidelines set forth in the IRC and related procedures in the Federal Tax Lien Handbook.

Levies (Statutory Review)

Audit Objective: Determine whether levies issued by the IRS comply with legal guidelines set forth in IRC.

Recent Changes to Schedule K-1 Matching Program

Audit Objective: Determine whether the IRS' steps to improve the matching program for Partner's Share of Income, Credits, Deductions, etc. (Form 1065 Schedule K-1), Shareholder's Share of Income, Credits, Deductions, etc. (Form 1120S Schedule K-1), and Beneficiary's Share of Income, Deductions, Credits, etc. (Form 1041 Schedule K-1) were effective to: (1) reduce unnecessary notices; (2) ensure the accuracy of notices; (3) increase the rate of assessments made on Automated Underreporter Program cases related to K-1 income; (4) reduce the percentage of IRS errors when processing paper K-1s; and (5) increase the number of K-1s input electronically.

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

Trend Analysis - Taxpayer Notice Code

Audit Objective: Identify taxpayers that are receiving the same notice for 2 to 3 years and determine how the IRS can better educate these taxpayers to bring an end to them making the same errors each year.

Small Business Filing Form 8453

Audit Objective: Determine how many taxpayers who did not file a Signature and Declaration for Electronic Filing (Forms 8453) were being investigated by Criminal Investigation. In addition, assess the ramifications of not having a Form 8453 filed with a tax return.

Employee Identification Numbers - Phase II

Audit Objective: Determine the compliance impact of millions of Employee Identification Numbers issued by the IRS in recent years that have not been used by taxpayers to file business tax returns.

Management of Joint Committee Case Inventory

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

American Jobs Creation Act - Provision 314 - Farmers/Fishermen Income Averaging

Audit Objective: Determine if the IRS effectively implemented provisions of the American Jobs Creation Act² (AJCA) to assist taxpayers in complying with the law and to ensure that IRS processing and compliance programs effectively identify noncompliance.

IRS Policy for Federal Tax Deposits Sent to Wrong IRS Addresses

Audit Objective: Determine the reasoning behind, and the effect of, the IRS' current policy to reject Federal Tax Deposit payments sent to the wrong address.

Amnesty - Phase II

Audit Objective: Evaluate information from state tax amnesty programs and prior studies and present the potential risks and benefits of implementing a Federal tax amnesty.

² Pub. L. No. 108-357, 118 Stat. 1418 (2004).

Charitable Contributions - Motor Vehicles, Boats and Airplanes-Provision 884

Audit Objective: Determine if the IRS effectively implemented provisions of the AJCA, regarding the substantiation and valuation of assets gifted after December 31, 2005, to assist taxpayers in complying with the law, and, to ensure that IRS processing and compliance programs effectively identify noncompliance.

Charitable Contributions - Increased Reporting for Noncash Charitable Contributions-Provision 883

Audit Objective: Determine if the IRS effectively implemented provisions of the AJCA, regarding the substantiation and valuation of assets gifted after December 31, 2005, to assist taxpayers in complying with the law, and, to ensure that IRS processing and compliance programs effectively identify noncompliance.

Review of the Use of Form 4137 to Collect Federal Insurance Contribution Act Tax on Tips and Wages

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

Penalty for Failing to Disclose Reportable Transactions-Provision 811

Audit Objective: Determine if the IRS effectively implemented provisions of the AJCA, regarding the imposition of penalties for failing to report certain tax shelter or other specifically identified tax avoidance transactions, to assist taxpayers in complying with the law, and, to ensure that IRS processing and compliance programs effectively identify noncompliance.

RRA 98 - Forms and Publications

Audit Objective: Determine if the IRS effectively implemented RRA 98 sections 3503 and 3508 to include information in "Your Rights as a Taxpayer" (Publication 1) and general tax forms instruction booklets to assist taxpayers in understanding their rights.

RRA 98 - Release of Wage Levies

Audit Objective: Determine if the IRS effectively implemented RRA 98 section 3432 which calls for the release of wage levies once the IRS determines that the tax owed is uncollectible.

RRA 98 - Approval of Jeopardy Assessments and Levies

Audit Objective: Determine if the IRS effectively implemented RRA 98 section 3434 which calls for Chief Counsel to approve all jeopardy assessments and jeopardy levies.

RRA 98 - State Tax Refund Offset Program

Audit Objective: Determine if the IRS effectively implemented RRA 98 section 3711 which permits states to participate in the Tax Refund Offset Program for specified past due, legally enforceable state income tax debts.

National Research Project - Flow-through

Audit Objective: Evaluate the effectiveness of the flow-through pilot and determine how results will be used to plan for the actual National Research Project.

Centralized Offers-In-Compromise -Schedule C

Audit Objective: Determine whether the Centralized Offer-In-Compromise function properly resolves offers for Profit or Loss from business (Schedule C) and evaluate the impact that the program will have on the Collection Field function (CFf).

Compliance Trends

Audit Objective: Provide statistical information and trend analyses pertaining to examination and collection activities.

Private Collection Agencies (Phase II)

Audit Objective: Evaluate the effectiveness of the initial phase of the Private Collection Agencies initiative and ensure that adjustments are made before full implementation begins.

Centralized Lien Processing

Audit Objective: Evaluate controls to determine whether liens are properly sent to counties for recording and payments to counties are properly made.

Campus Delinquency Investigations

Audit Objective: Determine whether tax examiners are taking effective actions and utilizing all of the tools available when they are unable to resolve a delinquency investigation.

Fraud Referrals

Audit Objective: Evaluate the effectiveness of the Fraud Referral Specialists program and determine whether cases are referred when appropriate.

Partial Pay Installment Agreements

Audit Objective: Determine whether decisions to accept Partial Pay Installment Agreements are proper and evaluate the effect that the program has on Centralized Offer-In-Compromise and Cff resources.

Evaluation of Information Items

Audit Objective: Determine whether the Examination classification function is effectively using and controlling information received from other sources.

Review of the Commissioner's Art Advisory Panel

Audit Objective: Determine whether art items are properly referred to the advisory panel and that the panel's appraisals are properly used in completing the return examination.

Currently Not Collectible - Hardships

Audit Objective: Determine whether Revenue Officers follow Currently Not Collectible procedures when writing off accounts as not collectible and confirm balances due with taxpayers.

Puerto Rico Collection Activities

Audit Objective: Evaluate controls over high risk collection activities in the Puerto Rico office including Remittances, Offers-In-Compromise, Currently Not Collectible accounts, closed Taxpayer Delinquency Investigations, and open Taxpayer Delinquent Accounts.

The IRS Use of Internal Revenue Code 7623 to Help Fight Tax Fraud

Audit Objective: Determine the effectiveness of the Whistleblower Program to help fight tax fraud through the Use of IRC 7623.

Trends in the Examination of Flow-through Returns

Audit Objective: Analyze the examination trends in the audits of flow-through entities to determine whether Business Results are being effectively and efficiently achieved.

The IRS Use of Penalties to Encourage Compliance with the Filing of Forms 5471 and 5472

Audit Objective: Evaluate whether the IRS sufficiently uses penalties to encourage filing compliance for entities with foreign reporting requirements.

Evaluation of the Progress of the Large & Mid-Size Business' Human Capital Initiatives

Audit Objective: Determine whether the IRS has implemented effective actions and achieved measurable results from its Strategic Human Capital initiatives.

Review of Unpaid Taxes Material Weakness

Audit Objective: Evaluate whether the IRS request to downgrade the material weakness to a reportable condition is warranted based on evidence that there is no longer a material weakness.

The IRS' Efforts to Improve/Expand Tip Reporting

Audit Objective: Evaluate the IRS' efforts to improve or expand tip income reporting agreements.

Partner Notification of Designation of Tax Matters Partner

Audit Objective: Determine whether the Service has adequate and effective controls to ensure compliance with I.R.C. § 6231(a)(7).

Efficacy of National Research Project Revised Formulas in Modeling Non-Compliant Work and Alignment with Emerging Areas of the Tax Gap

Audit Objective: Evaluate the efficacy of National Research Project revised formulas in modeling non-compliant work and alignment with emerging areas of the tax gap.

Analysis of Unmatched Information Returns File

Audit Objective: Determine what actions the IRS has taken as a result of study results and perform data analysis of what comprises the unmatched Information Returns Program file.

The IRS' Ability to Improve Voluntary Compliance Rate

Audit Objective: Determine whether the IRS' compliance efforts and strategies will enable it to achieve the 90 percent voluntary compliance rate goal by 2010.

Review of the IRS' High Income Taxpayer Examination Strategy

Audit Objective: Determine whether the IRS' examination of individual tax returns with Total Positive Income of \$100,000 or more meets congressional intent, is efficient, and results in effective coverage.

Appendix XIV

List of Planned Audits for Fiscal Year 2006
By Management Challenges, Internal Revenue Service Goals
and Objectives, Presidential Initiatives, and Strategic Planning Questions

PLANNED AUDIT	STATUTORY / DISCRETIONARY	MANAGEMENT CHALLENGE	IRS GOALS AND OBJECTIVES	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	See Appendix XV for definitions of the codes.				
Information Systems Programs					
<i>Filing and Payment Compliance Project Review</i>	S	c02	g3-2	EG	i04
<i>Program Management Transition from the PRIME Contractor to the Business Systems Modernization Office</i>	S	c02	g3-2	EG	i04
<i>Annual Business Systems Modernization Assessment</i>	S	c02	g3-2	EG	i04
<i>Role and Cost of the Federally Funded Research and Development Center in the Business Systems Modernization Program</i>	S	c02	g3-2	EG	i04
<i>Establishment of the Enterprise Services Organization</i>	S	c02	g3-2	EG	i04
<i>Contracting Processes (Follow-up)</i>	S	c02	g3-2	EG	i05
<i>Customer Account Data Engine Project Review</i>	S	c02	g3-2	EG	i04
<i>Modernized E-File Development Project Review</i>	S	c02	g3-2	EG	i04
<i>Establishment of the Requirements Management Office</i>	S	c02	g3-2	EG	i04
<i>Accounting for Business Systems Modernization Funding</i>	S	c02	g3-2	EG	i04
<i>Business Systems Development Testing Processes</i>	D	c02	g3-2	EG	i05
<i>Infrastructure Shared Services Program Review</i>	S	c02	g3-2	EG	i04
<i>Enterprise Operations Use of Contractors</i>	D	c02	g3-2	EG	i05
<i>IRS' Use of Telecommunications Services Offered through the Department of the Treasury Contract</i>	D	c02	g3-2	EG	i05
<i>Quality Metrics and Resource Allocation</i>	D	c02	g3-2	EG	i05
<i>Status of Legacy Systems and Aging Infrastructure</i>	D	c02	g3-2	EG	i05

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	See Appendix XV for definitions of the codes.				
<i>Task Order Audit: Architecture and Integration</i>	S	c02	g3-2	EG	i04
<i>Federal Information Security Management Act</i>	S	c01	g3-3	EG	i06
<i>Security Over Health and Human Services Data</i>	S	c01	g3-3	EG	i06
<i>Mission Assurance & Security Services Responsibilities</i>	S	c01	g3-3	EG	i06
<i>Mission Assurance & Security Services Office of Privacy</i>	S	c01	g3-3	EG	i06
<i>Homeland Security Presidential Directive-12 Personal Identification Verification</i>	S	c01	g3-3	EG	i06
<i>Background Investigations</i>	S	c01	g3-3	EG	i06
<i>Sensitive Data Stored on Electronic or Optical Media</i>	S	c01	g3-3	EG	i06
<i>Internet Gateways</i>	S	c01	g3-3	EG	i06
<i>Wireless (Follow-up)</i>	S	c01	g3-3	EG	i06
<i>Critical Infrastructure Protection</i>	S	c01	g3-3	EG	i06
<i>Infrastructure Components and Services</i>	S	c01	g3-3	EG	i06
<i>Security over Remote Systems Administration</i>	S	c01	g3-3	EG	i06
<i>Modernization Audit Trails</i>	S	c01	g3-3	EG	i06
<i>Database Controls</i>	S	c01	g3-3	EG	i06
<i>IRS Electronic Mail System</i>	S	c01	g3-3	EG	i06
<i>Online Integrated Data Retrieval System Violation Reports</i>	S	c01	g3-3	EG	i06
<i>Capital Expenditures</i>	S	c01	g3-3	EG	i06
<i>Computer Security Material Weaknesses</i>	S	c01	g3-3	EG	i06
<i>Patch Management Capping Report</i>	S	c01	g3-3	EG	i06
<i>Internet Protocol Version 6</i>	S	c01	g3-3	EG	i06
Headquarters Operations and Exempt Organizations Programs					
<i>Voucher/Invoice Audits - Various Contractors</i>	D	c08	g3-2	IM	i05
<i>Assistance to Contract Fraud Investigations</i>	D	c08	g3-2	IM	i05
<i>Defense Contract Audit Agency Contract Oversight</i>	S	c08	g3-2	IM	i05

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	See Appendix XV for definitions of the codes.				
<i>Federal Financial Management Improvement Act of 1996 Remediation Plan</i>	S	c03	g3-2	IM	i03
<i>Working Capital Fund</i>	D	c03	g3-4	IM	i05
<i>Automated Trust Fund Recovery Program</i>	D	c03	g3-2	IM	i03
<i>Federal Agency Employment Tax Delinquencies</i>	D	c06	g2-4	IM	i03
<i>Reimbursement of Administrative Expenses for Processing Federal Unemployment Tax Act and Federal Insurance Contribution Act Taxes</i>	D	c03	g3-4	IM	i05
<i>Trends in Criminal Investigation Activities Fiscal Years 2000-2005</i>	D	c06	g2-3	NE	i01
<i>Fraud Detection Centers - Questionable Refund Program</i>	D	c08	g2-3	NE	i01
<i>Fraud Detection Centers - Return Preparer Program</i>	D	c06	g2-2	NE	i01
<i>E-Crimes Program</i>	D	c06	g2-3	NE	i01
<i>Parallel Investigations</i>	D	c06	g2-3	NE	i01
<i>Effectiveness of the Office of Research, Analysis and Statistics</i>	D	c00	g3-1	NE	i05
<i>Freedom of Information Act Denials</i>	S	c09	g-0	NE	i02
<i>Appeals -- Collection Due Process</i>	S	c09	g-0	NE	i02
<i>Validation of Cost Savings</i>	D	c03	g3-4	CS	i03
<i>Appeals -- Campus Operations</i>	D	c07	g3-1	NE	i02
<i>Chief Counsel -- Advanced Case Resolution Program</i>	D	c07	g-0	NE	i02
<i>Office of Professional Responsibility -- Enrolled Agent Program</i>	D	c07	g2-2	NE	i02
<i>Taxpayer Advocate Service -- Operations Assistance Requests</i>	D	c07	g-0	NE	i02
<i>Taxpayer Complaints</i>	S	c09	g-0	NE	i00
<i>Human Capital Office Resource Optimization Study</i>	D	c10	g3-4	HC	i05
<i>Enterprise Learning Management System</i>	D	c10	g3-1	HC	i05
<i>Government Performance and Results Act</i>	D	c03	g3-1	BP	i03
<i>Removal of Learning and Education from Competitive Sourcing</i>	D	c10	g3-4	CS	i03
<i>Implementation of Paybanding</i>	D	c10	g3-1	BP	i03

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	See Appendix XV for definitions of the codes.				
<i>Review of the IRS' Migration to Electronic Travel Services</i>	D	c00	g-0	EG	i03
<i>Review of the Public Transportation Subsidy Program</i>	D	c00	g-0	HC	i00
<i>Tax Exempt Determination System Processing of Employee Plans Determination Letters</i>	D	c02	g3-2	EG	i04
<i>Implementation of the Employee Plans Compliance Unit</i>	D	c06	g2-4	NE	i01
<i>Statistical Analysis of the Employee Plans Function's Enforcement Activities</i>	D	c06	g2-4	NE	i01
<i>Employee Plans Function's Process for Evaluating Referrals of Noncompliance</i>	D	c06	g2-4	NE	i01
<i>Impact of the Employee Plans Function's Focused Examination Initiative</i>	D	c06	g2-4	NE	i01
<i>Exempt Organizations Function's Efforts to Address Excessive Executive Compensation</i>	D	c06	g2-4	BP	i01
<i>Exempt Organizations Function's Oversight of Tax Exempt Organizations Involved With Hurricane Katrina Relief</i>	D	c06	g2-4	NE	i01
<i>Exempt Organizations Function's Efforts to Address Credit Counseling Abuses</i>	D	c06	g2-4	BP	i01
<i>Statistical Analysis of the Exempt Organizations Function's Enforcement Activities</i>	D	c06	g2-4	NE	i01
<i>Processing Tax Exempt Bond Payments to the 6400 General Ledger Account</i>	D	c03	g-0	NE	i05
<i>Use of Error Account Closures in the Tax Exempt Bond Office</i>	D	c06	g2-4	NE	i01
<i>Statistical Portrayal of the Indian Tribal Governments Office's Enforcement Activities</i>	D	c06	g2-4	NE	i01
<i>Indian Tribal Governments Office's Tip Compliance Program</i>	D	c06	g2-4	NE	i01
<i>Federal, State, and Local Governments Office's Efforts to Identify Its Customers (Follow-up)</i>	D	c06	g2-4	NE	i05
<i>Federal, State, and Local Governments Office's Efforts to Develop a Workload Selection System</i>	D	c06	g2-4	NE	i01
<i>Capping Report: Tax Exempt and Government Entities Division Customer Account Services Function's Service to Customers</i>	D	c07	g1-2	BP	i02

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	See Appendix XV for definitions of the codes.				
<i>Effectiveness of the Tax Exempt and Government Entities Division's Oversight for User Fee Payment Processing</i>	D	c03	g-0	NE	i01
Wage and Investment Income Programs					
<i>Internal Controls Over Processing Payments in the Teller Units</i>	D	c07	g1-1	IM	i02
<i>Stakeholder Partnerships, Education and Communications' Effect on Voluntary Compliance</i>	D	c07	g1-1 g1-2	BP	i02
<i>Taxpayer Experience with Tax Law Assistance 2006 Filing Season</i>	D	c07	g1-1	NE	i02
<i>End-to-End Publishing</i>	D	c07	g1-1 g3-2	EG	i02 i04
<i>Field Assistance 2006 Filing Season Readiness</i>	D	c07	g1-1	NE	i02
<i>Toll Free Access 2006 Filing Season</i>	D	c07 c09	g1-1	NE	i02
<i>Picture Them at Home</i>	D	c07	g1-1	NE	i02
<i>Taxpayer Assistance Center Closure Model</i>	S	c07	g1-1	NE	i02
<i>Volunteer Income Tax Assistance Tax Return Preparation 2006 Filing Season (Follow-up)</i>	D	c07	g1-1	NE	i02
<i>Wage and Investment Division Electronic Customer Service Strategy</i>	D	c07	g1-1 g1-2	EG	i02 i04
<i>Tax Law Changes Impacting Tax Returns</i>	D	c04 c09	g1-2 g1-3	NE	i02
<i>2006 Filing Season Implementation</i>	D	c04 c09	g1-2 g1-3	NE	i02
<i>Impact of the Elimination of Telefile</i>	D	c04 c09	g1-1 g1-2	NE	i02 i04
<i>Implementation of Updated Customer Account Data Engine Release</i>	D	c04 c09	g1-2 g1-3, g3-2	NE	i02
<i>Barriers to Increasing Electronic Filing</i>	D	c04 c09	g1-1 g1-2, g1-3	NE	i02 i04
<i>Tax Implications of the Aging Population</i>	D	c04 c09	g1-2 g1-3	NE	i02
<i>Identity Theft of Dependent Social Security Numbers</i>	D	c09	g1-2 g2-1	NE	i01 i02
<i>Accuracy of Individual Income Tax Credits</i>	D	c04	g1-2 g2-1	NE	i01 i02
<i>Processing Applications for Tentative Refunds</i>	D	c04 c09	g1-3	NE	i02
<i>Assessment of the User Fee Program in the Wage & Investment Division</i>	D	c00	g-0	NE	i00
<i>Assessment of Alternative Minimum Tax</i>	D	c04 c09	g1-2 g1-3	NE	i02
<i>Processing of Undelivered Refunds</i>	D	c04 c09	g1-3	NE	i02
<i>Impact of Customer Account Services Consolidation</i>	D	c00	g3-4	NE	i02

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	See Appendix XV for definitions of the codes.				
<i>Effectiveness of the Correspondence Imaging System</i>	D	c02 c09	g3-2	NE	i02 i04
<i>Implementation of New Earned Income Tax Credit Program</i>	D	c04 c09	g1-2	NE	i02
<i>Withholding Compliance</i>	D	c06	g2-1	NE	i01
<i>Taxpayer Awareness of Installment Agreements</i>	D	c06	g1-2	NE	i02
<i>Installment Agreements User Fees</i>	D	c06	g1-3	NE	i02
<i>Implementation of Improper Payment Information Act</i>	D	c08	g-0	IM	i03
<i>Collection Statute Expiration Dates</i>	D	c09	g1-3	NE	i02
<i>Restrictions on the Use of Enforcement Statistics</i>	S	c09	g1-3	NE	i02
<i>Taxpayer Designations - Illegal Tax Protester and Non-filer Designation</i>	S	c09	g1-3	NE	i02
<i>Assessment Statute Extensions</i>	S	c09	g1-3	NE	i02
<i>Disclosure of Collection Activities With Respect to Joint Returns</i>	S	c09	g1-3	NE	i02
<i>Restrictions on Directly Contacting Taxpayers</i>	S	c09	g1-3	NE	i02
Small Business and Corporate Programs					
<i>Seizures</i>	S	c09	g2-1	NE	i01
<i>Liens</i>	S	c09	g2-1	NE	i01
<i>Levies</i>	S	c09	g2-1	NE	i01
<i>Recent Changes to Schedule K-1 Matching Program</i>	D	c06	g2-1	NE	i02
<i>Trend Analysis - Taxpayer Notice Code</i>	D	c04	g1-1	NE	i01
<i>Small Business Filing Form 8453</i>	D	c00	g-0	NE	i01
<i>Employee Identification Numbers - Phase II</i>	D	c04	g1-1	EG	i01
<i>Management of Joint Committee Case Inventory</i>	D	c04	g-0	NE	i02
<i>American Jobs Creation Act - Provision 314 - Farmers/Fishermen Income Averaging</i>	D	c04	g1-2	NE	i00
<i>IRS Policy for Federal Tax Deposits Sent to Wrong IRS Addresses</i>	D	c07	g1-1	NE	i02
<i>Amnesty - Phase II</i>	D	c06	g2-1	NE	i01
<i>Charitable Contributions - Motor Vehicles, Boats and Airplanes-Provision 884</i>	D	c04	g2-1	NE	i01
<i>Charitable Contributions - Increased Reporting for Noncash Charitable Contributions-Provision 883</i>	D	c04	g2-1	NE	i01

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	See Appendix XV for definitions of the codes.				
<i>Review of the Use of Form 4137 to Collect Federal Insurance Contribution Act Tax on Tips and Wages</i>	D	c05	g2-1	NE	i01
<i>Penalty for Failing to Disclose Reportable Transactions-Provision 811</i>	D	c04	g2-3	NE	i00
<i>RRA 98 - Forms and Publications</i>	D	c04	g1-1	NE	i02
<i>RRA 98 - Release of Wage Levies</i>	D	c04	g1-1	NE	i02
<i>RRA 98 - Approval of Jeopardy Assessments and Levies</i>	D	c04	g1-1	NE	i02
<i>RRA 98 - State Tax Refund Offset Program</i>	D	c04	g1-1	NE	i02
<i>National Research Project - Flow-through</i>	D	c06	g2-1	NE	i01
<i>Centralized Offers-In-Compromise - Schedule C</i>	D	c06	g2-1	NE	i01
<i>Compliance Trends</i>	D	c06	g2-1	NE	i01
<i>Private Collection Agencies (Phase II)</i>	D	c09	g2-1	CS	i01
<i>Centralized Lien Processing</i>	D	c06	g2-1	NE	i01
<i>Campus Delinquency Investigations</i>	D	c06	g2-1	NE	i01
<i>Fraud Referrals</i>	D	c06	g2-1	NE	i01
<i>Partial Pay Installment Agreements</i>	D	c06	g2-1	NE	i01
<i>Evaluation of Information Items</i>	D	c06	g2-1	NE	i01
<i>Review of the Commissioner's Art Advisory Panel</i>	D	c06	g2-1	NE	i01
<i>Currently Not Collectible - Hardships</i>	D	c06	g2-1	NE	i01
<i>Puerto Rico Collection Activities</i>	D	c06	g2-1	NE	i01
<i>The IRS Use of Internal Revenue Code 7623 to Help Fight Tax Fraud</i>	D	c06	g2-1	NE	i01
<i>Trends in the Examination of Flow-through Returns</i>	D	c06	g2-1	NE	i01
<i>The IRS Use of Penalties to Encourage Compliance with the Filing of Forms 5471 and 5472</i>	D	c06	g2-1	NE	i01
<i>Evaluation of the Progress of the Large & Mid-Size Business' Human Capital Initiatives</i>	D	c05	g3-1	HC	i03
<i>Review of Unpaid Taxes Material Weakness</i>	D	c00	g-0	NE	i01
<i>The IRS' Efforts to Improve/Expand Tip Reporting</i>	D	c06	g2-1	NE	i01
<i>Partner Notification of Designation of Tax Matters Partner</i>	D	c06	g2-1	NE	i01

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See Appendix XV for definitions of the codes.					
<i>Efficacy of National Research Project Revised Formulas in Modeling Non-Compliant Work and Alignment with Emerging Areas of the Tax Gap</i>	D	c06	g2-1	NE	i01
<i>Analysis of Unmatched Information Returns File</i>	D	c06	g2-1	NE	i01
<i>The IRS' Ability to Improve Voluntary Compliance Rate</i>	D	c00	g2-1	NE	i01
<i>Review of the IRS' High Income Taxpayer Examination Strategy</i>	D	c00	g2-1	NE	i01

**Codes Used in the List of Planned Audits for Fiscal Year 2006
By Management Challenges, Internal Revenue Service Goals and Objectives, Presidential
Initiatives, and Strategic Planning Questions**

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

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ISSUE	CODE	ISSUE	CODE	ISSUE	CODE	ISSUE	CODE
Providing Quality Taxpayer Service Operations	c07	Ensure that Attorneys, Accountants and Other Tax Practitioners Adhere to Professional Standards and Follow the Law	g2-2			Other	i00
Erroneous and Improper Payments	c08	Detect and Deter Domestic and Off-Shore Based Tax and Financial Criminal Activity	g2-3				
Taxpayer Protection and Rights	c09	Deter Abuse within Tax-Exempt and Governmental Entities and Misuse of such Entities by Third Parties for Tax Avoidance or Other Unintended Purposes	g2-4				
Human Capital	c10	Goal 3: Modernize the IRS through Its People, Processes and Technology					
Other	c00	Increase Organizational Capacity to Enable Full Engagement and Maximum Productivity of Employees	g3-1				
		Modernize Information Systems to Improve Service and Enforcement	g3-2				
		Ensure the Safety and Security of People, Facilities and Information Systems	g3-3				
		Modernize Business Processes and Align the Infrastructure Support to Maximize Resources Devoted to Front-line Operations	g3-4				
		Other	g-0				

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