

TREASURY  
INSPECTOR GENERAL  

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FOR TAX ADMINISTRATION

Annual  
Audit Plan

Fiscal Year 2007



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## ***Fiscal Year 2007 Annual Audit Plan***

### ***Message from the Deputy Inspector General for Audit***

Providing America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and collecting the revenues that fund most Government operations and public services is a complex job for the Internal Revenue Service (IRS). The Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel to assure the American public, the President, the Congress, and other stakeholders that the IRS is effective in carrying out its important mission. The Office of Audit provides audit services that promote the economy, efficiency and integrity of the Internal Revenue laws. We believe that in Fiscal Year (FY) 2007, the IRS will continue to face 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 fulfilling its financial stewardship responsibilities. Some of these challenges are also concerns of the President, as cited in *The President's Management Agenda*.<sup>1</sup> In addition, the IRS and the Government Accountability Office (GAO) have listed some of the concerns as material weaknesses in IRS programs.

Modernization of the IRS' computer systems is a complex effort that involves the IRS' technology and related business processes. The IRS has made steady progress during the past year, and we are confident that the inventory of computer systems is substantially complete. In addition, the IRS began taking aggressive actions to restructure and redesign significant areas within its modernization effort by taking over the role of systems integrator from the PRIME contractor<sup>2</sup> and changing the approach from completely replacing current business systems to using current business systems to accomplish modernization. While positive steps have been taken, we continue to cite the need for management process changes and necessary resources, better risk management and strategic direction, and improved accountability and management of contractor performance as specific challenges the IRS needs to address to successfully modernize.

Tax compliance initiatives include the need to administer tax regulations and collect tax dollars from businesses and individuals, and the need to oversee compliance by tax-exempt and Government entities. The IRS is targeting its casework and enforcement activities to deliver better results and to better target those corporations and high-income individuals who fail to report or pay what they owe. 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, is \$345 billion. Our evaluation of the reliability of

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<sup>1</sup> *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).

<sup>2</sup> The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology.


the IRS figures concluded that the IRS still does not have sufficient information to completely and accurately assess the overall tax gap and voluntary compliance rate.

Millions of taxpayers entrust the IRS with sensitive financial and personal data stored and processed by IRS computer systems. Recent reports of identity theft from both the private and public sectors have heightened awareness of the need to protect this data. The risks that sensitive data or computer systems could be compromised and computer operations could be disrupted continue to increase. The IRS is faced with both internal and external risks. This past year, the IRS reassessed the security risks of all 264 of its systems and improved the accuracy of the risk categorizations for its systems. It also developed a corporate approach to meeting its security requirements by creating an enterprise-wide program. However, these process changes have not yet had a positive effect, and the IRS still has not provided sufficient attention to the security of sensitive systems.

Since the late 1990's, the IRS has increased its delivery of quality customer service to taxpayers. There are recent signs, however, that this trend may be reversing as the IRS proposes to allocate more resources to its collection, examination, and criminal investigation functions and fewer resources to taxpayer service functions. In addition, we continue to identify the need for improvements in taxpayer services provided through the toll-free, face-to-face, and electronic methods. The Congress recently noted that the IRS lacks a concrete plan to provide adequate alternative services to replace the services that the IRS has proposed for reduction or elimination. In response, the IRS developed the first phase of a five-year Taxpayer Assistance Blueprint that should help focus on providing the appropriate types and amounts of service.

In 2004 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 projects that over the next 10 years, these contractors could collect about \$1.4 billion of overdue 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 tax debt.

The Office of Audit's FY 2007 Annual Audit Plan is designed to assess areas related to the major challenges facing the IRS, including modernization, the tax gap, security, customer service, and privatization as well as *The President's Management Agenda* initiatives. In addition, 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 the specific challenges the IRS faces and the Office of Audit's FY 2007 coverage in those challenges is included in the section entitled List of Planned Audits for Fiscal Year 2007 by Major Management Challenge.

  
Michael R. Phillips  
Deputy Inspector General for Audit

## *The Mission and the Organization*

The Internal Revenue Service's (IRS) Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> 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.<sup>2</sup> The TIGTA provides independent oversight of Treasury Department matters involving IRS activities, the IRS Oversight Board, the National Taxpayer Advocate, and the IRS Office of Chief Counsel.

The TIGTA's focus is devoted entirely to the IRS and 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.

TIGTA's Office of Audit strives to promote the economy, efficiency, and effectiveness of tax administration. Our comprehensive, independent performance and financial audits of IRS programs and operations focus on mandated reviews and high-risk challenges facing the IRS. Office of Audit reviews also help ensure compliance with applicable laws and regulations, and detect and deter fraud, waste, and abuse. TIGTA provides recommendations to improve IRS systems and operations, while ensuring fair and equitable treatment of taxpayers.

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) Headquarters Operations and Exempt Organizations Programs; 2) Information Systems Programs; 3) Small Business and Corporate Programs; and 4) Wage and Investment Income Programs. Please see [Appendix I](#) for the Office of Audit organization chart.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 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.).

<sup>2</sup> 5 U.S.C.A. app. 3 (West Supp. 2003).

## *Audit Program for Fiscal Year 2007*

The Office of Audit Fiscal Year 2007 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.

Each year, TIGTA identifies and addresses the major management challenges facing the IRS. The Annual Audit Plan is organized by TIGTA's listing of the major management challenges facing the IRS for FY 2007 (Appendix II). Emphasis is placed on the mandatory coverage imposed by the IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits.

The balance of TIGTA's audit work is concentrated on high-risk areas and will focus on 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. The IRS' goals and objectives for the next two fiscal years are highlighted in Appendix III. Key initiatives of *The President's Management Agenda* are included as Appendix IV.

To identify FY 2007 high-risk areas for audit coverage, the TIGTA uses a risk-assessment strategy within its core business areas. 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.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 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.).

## ***Office of Audit's Program Areas***

The following narratives briefly describe the Internal Revenue Service's (IRS) major program areas that TIGTA will review during FY 2007.

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### **Headquarters Operations and Exempt Organizations Programs**

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The Headquarters Operations and Exempt Organizations Programs Unit evaluates several IRS programs, including Financial Management, the Government Performance and Results Act of 1993 (GPRA)<sup>1</sup>, 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 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.<sup>2</sup>

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.

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.

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<sup>1</sup> 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.).

<sup>2</sup> Pub. L. No. 104-208, 110 Stat. 3009.



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.

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### **Information Systems Programs**

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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 effort, which began in 1999, was expected to last approximately 15 years at a cost of \$8 billion. 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.

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 2007 work planned in Information Systems Programs will position the TIGTA to meet the Federal Information Security Management Act<sup>3</sup> and the IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>4</sup> requirements for reporting annually on the adequacy and security of IRS technology.

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### **Small Business and Corporate Programs**

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The IRS' Small Business/Self-Employed (SB/SE) and the Large and Mid-Size Business (LMSB) Divisions focus on helping taxpayers understand the tax laws, processing the tax returns, and enforcing compliance with the tax laws. These taxpayers usually have much more frequent contact with the IRS than wage and investment taxpayers, and these contacts are usually more unique and complicated. The IRS, nevertheless, strives to provide top quality service to each taxpayer in every interaction.

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<sup>3</sup> E-Government Act of 2002, Pub. L. No. 107-347, Title III, Section 301, 2002.

<sup>4</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 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.).

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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 wage and investment 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. 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 SB/SE taxpayers.

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## Wage and Investment Income Programs

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

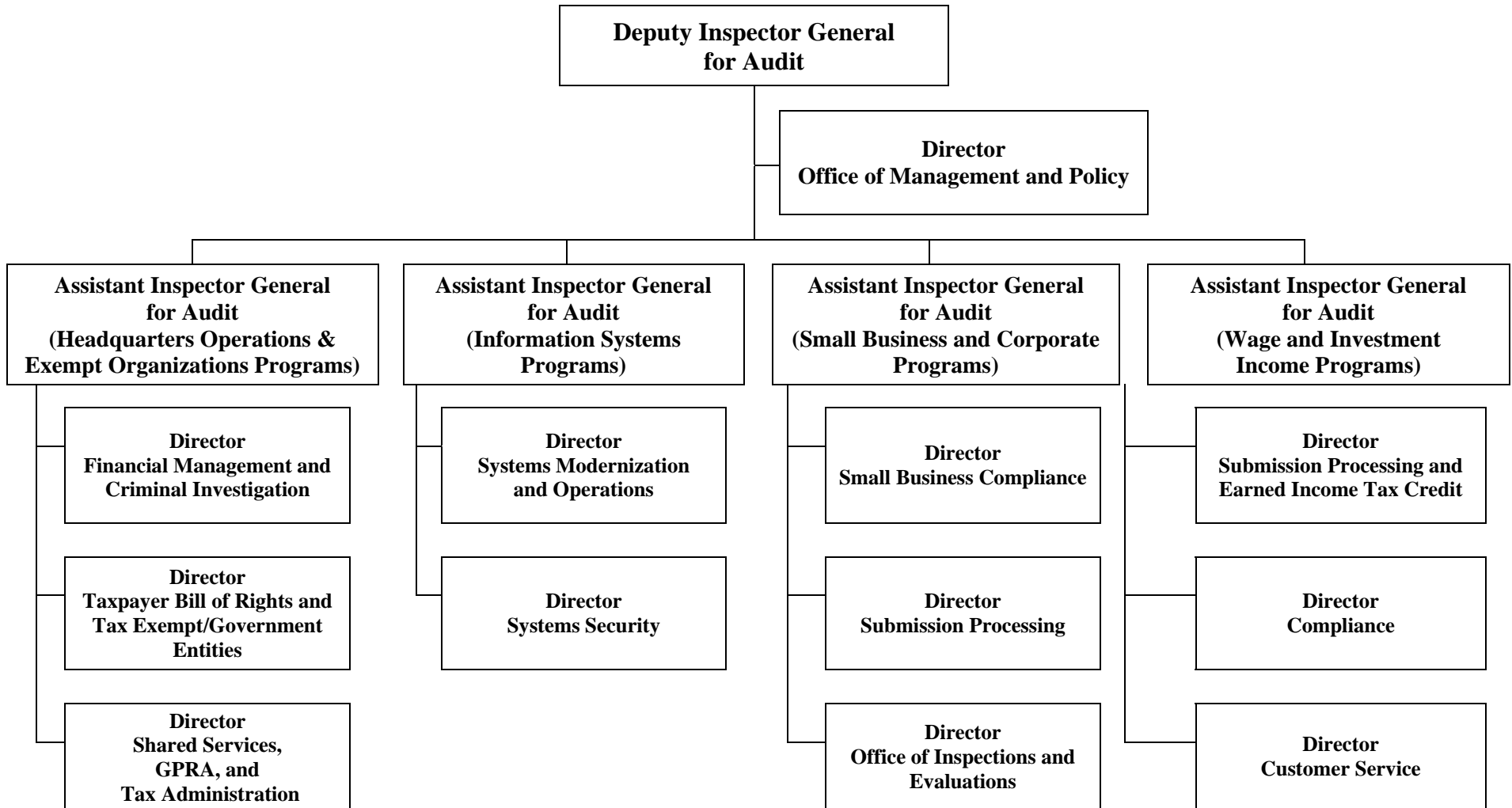
## Inspections and Evaluations Unit

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The Inspections and Evaluations (I&E) Unit was created within the Office of Audit in FY 2006 as a pilot group to provide factual and analytical information; monitor compliance, measure performance; assess the effectiveness and efficiency of programs and operations; share best practices; and inquire into allegations of fraud, waste, abuse and mismanagement. The work done by I&E covers a broad spectrum from answering Congressional concerns to evaluating the President's Tax Panels Recommendations to determine whether it is administrable. The projects do not compete with the Office of Audit planned activities. The I&E work complements, augments, and amplifies Office of Audit work.

**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 2007 are:

- ❖ Modernization of the Internal Revenue Service.
- ❖ Tax Compliance Initiatives.
  - Business and Individual Compliance Initiatives
  - Tax Exempt Entities Compliance Initiatives
- ❖ Security of the Internal Revenue Service.
- ❖ Providing Quality Taxpayer Service Operations.
- ❖ Complexity of the Tax Law.
- ❖ Using Performance and Financial Information for Program and Budget Decisions.
- ❖ 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 2006 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](http://www.treas.gov/tigta/oa_management.shtml)

The Internal Revenue Service's  
Strategic Goals and Objectives<sup>1</sup>

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

<sup>1</sup> 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....<sup>1</sup>

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

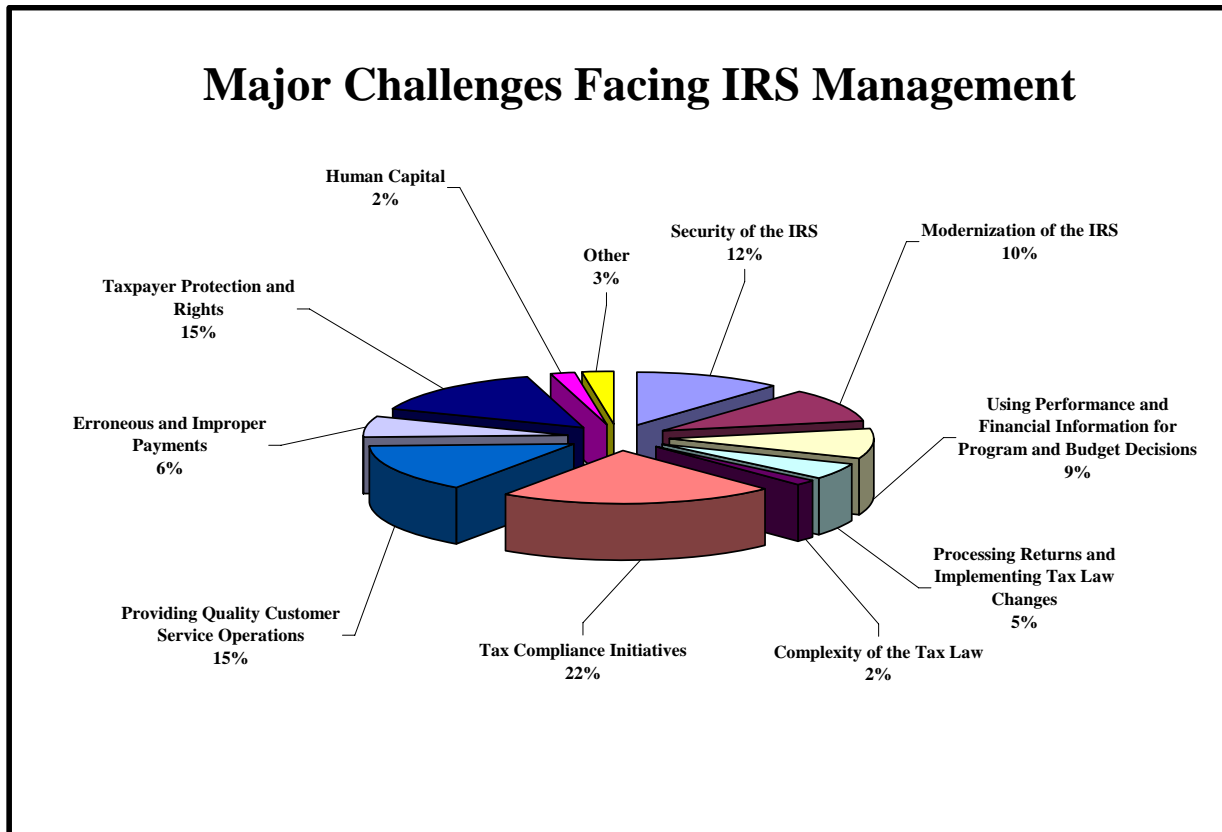
- ❖ Strategic Management of Human Capital.
- ❖ Competitive Sourcing.
- ❖ Improved Financial Performance.
- ❖ Expanded Electronic Government.
- ❖ Budget and Performance Integration.

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<sup>1</sup> *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 2007  
Staff Day Allocation By Major Challenges Facing Internal  
Revenue Service Management



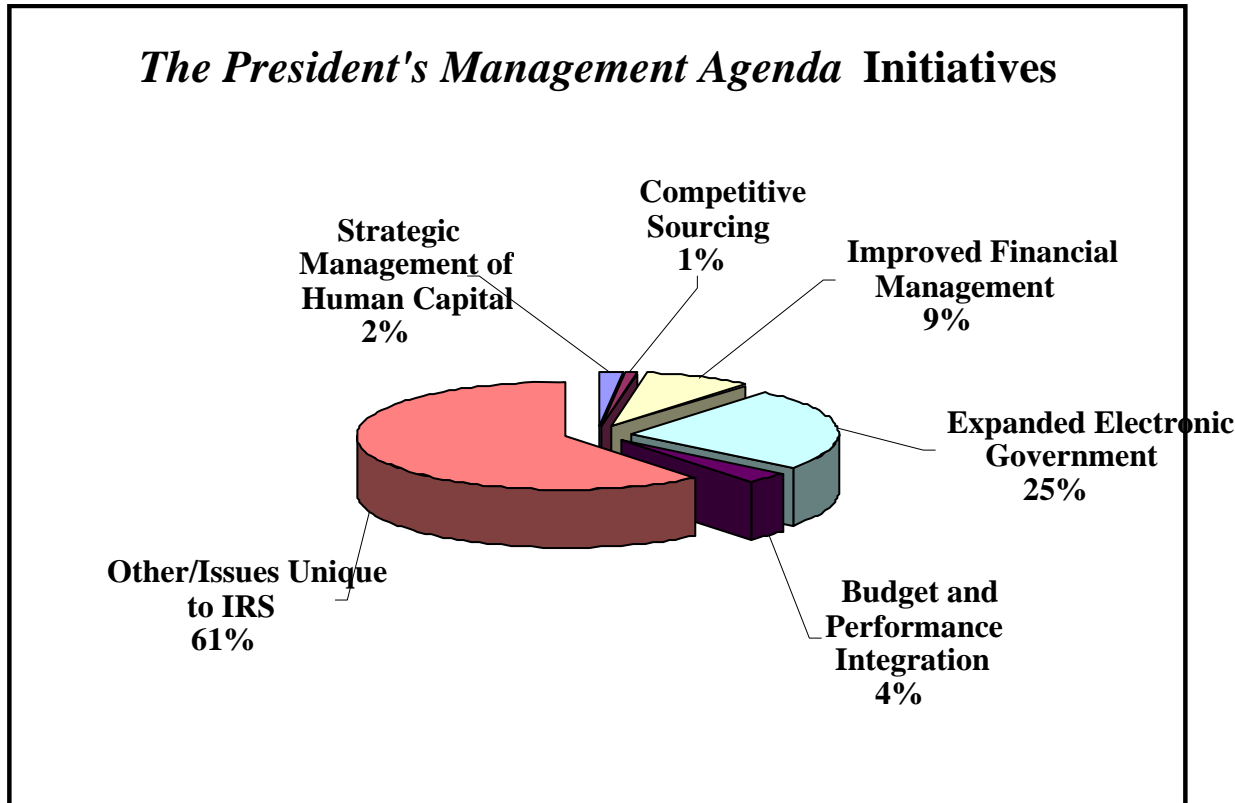
Note: Some audits relate to more than one major challenge area. In addition, Fiscal Year (FY) 2007 staff days are included for audits that were started in FY 2006 with planned completion dates in FY 2007.

## Office of Audit's Fiscal Year 2007 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) 2007 staff days are included for audits that were started in FY 2006 with planned completion dates in FY 2007.

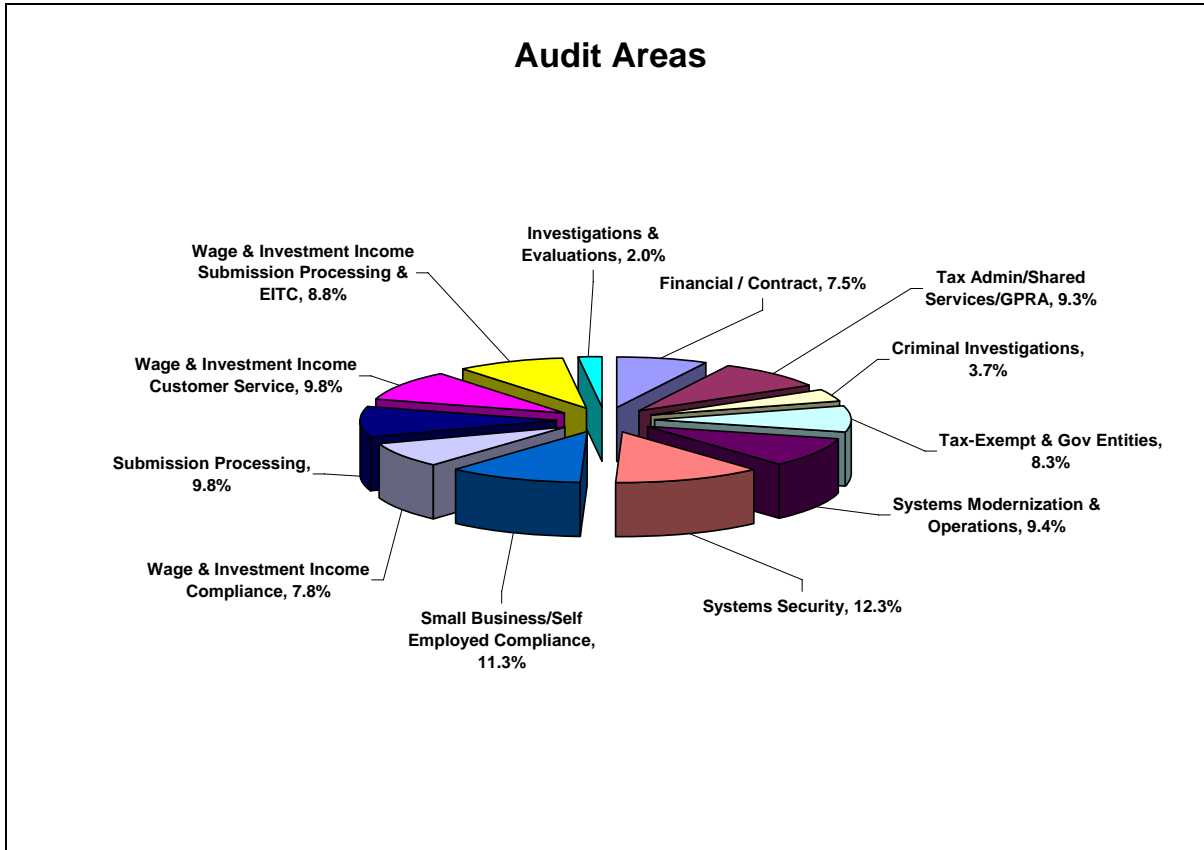
Office of Audit's Fiscal Year 2007 Staff Day Allocation By  
*The President's Management Agenda Initiatives*<sup>1</sup>



Note: Fiscal Year (FY) 2007 staff days are included for audits that were started in FY 2006 with planned completion dates in FY 2007.

<sup>1</sup> Fiscal Year 2007 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 2007 Staff Day Allocation by Audit Areas



Note: Fiscal Year (FY) 2007 staff days are included for audits that were started in FY 2006 with planned completion dates in FY 2007.

## List of Planned Audits for Fiscal Year 2007 by Major Management Challenge

## Modernization of the Internal Revenue Service List of Planned Audits for Fiscal Year 2007

*The Business Systems Modernization program is a complex effort to modernize the IRS' technology and related business processes. This effort will involve integrating thousands of hardware and software components. All of this must be done while replacing outdated technology and maintaining the current tax system.*

### ***Using Technology to Reduce Publishing and Mail Costs*** (2007 – New Start)

**Audit Objective:** Evaluate the IRS' efforts to reduce mail costs through the use of electronic technology.

### ***Wage and Investment Division E-Strategy*** (2007 – New Start)

**Audit Objective:** Determine whether the Wage and Investment Division has a strategy to maximize its use of electronic channels to increase the efficiency with which it provides customer service to taxpayers.

### ***Private Debt Collection Release 1.2 and Release 1.3 Development*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS and its contractors are developing the current releases of the Private Debt Collection project using sound systems development practices.

### ***Modernized e-File*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS and its contractors are developing release 4 of the Modernized e-File project using sound systems development practices.

### ***Annual Business Systems Modernization Assessment*** (2007 – New Start)

**Audit Objective:** Assess the progress of the Business Systems Modernization program for Fiscal Year 2007, as required by the Internal Revenue Service Restructuring and Reform Act of 1998<sup>1</sup>.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 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.).

***Account Management Services (2007 – New Start)***

**Audit Objective:** Determine whether the IRS is developing the four Account Management Services projects using sound systems development practices.

***Disaster Recovery (2007 – New Start)***

**Audit Objective:** Determine whether the IRS is making adequate progress against its material weakness remediation plan.

***Employee Plans/Exempt Organizations Application e-Services (2007 – New Start)***

**Audit Objective:** Determine if the IRS is developing the Employee Plans/Exempt Organizations Application e-Services project using sound systems development practices.

***Filing Information Returns Electronically (2007 – New Start)***

**Audit Objective:** Determine if the IRS and its contractors are making improvements to the Filing Information Returns Electronically project using sound systems development practices.

***Correspondence Imaging System and Conversion to Document Management Solution (2007 – New Start)***

**Audit Objective:** Determine if the IRS and its contractors are deploying Correspondence Imaging System Release 2 and converting to a new document management solution using sound systems development practices.

***Modernization Post-Deployment Process (2007 – New Start)***

**Audit Objective:** Determine whether the IRS is conducting appropriate and accurate post release and deployment activities, including whether the benefits identified in the original business cases have been realized.

***Compliance with Employment Tax Reporting Requirements (2006 – Work in Process)***

**Audit Objective:** Determine the efforts the IRS, Treasury and Congress are taking to address employee leasing companies that default on paying employment taxes and determine what can be done to improve compliance tracking for those businesses that terminate their use of such services.

***Self-Employment Tax on Schedule C Income*** (2006 – Work in Process)

**Audit Objective:** Determine the effectiveness of the IRS' process for identifying and auditing taxpayers who are subject to but do not pay self-employment tax.

***The IRS' Use of Form 4137 to Collect Federal Insurance  
Contribution Act Tax on Tips and Wages*** (2006 – Work in Process)

**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.

***Installment Agreements User Fees*** (2006 – Work in Process)

**Audit Objective:** Evaluate the administration of installment agreement user fees.

***Customer Account Data Engine Project Review*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS and its contractors are developing the current releases of the Customer Account Data Engine project using sound systems development practices.

***Post Implementation Reviews*** (2006 – Work in Process)

**Audit Objective:** Determine the adequacy of the procedures for performing Post Implementation Reviews to assess benefits and capabilities of new information technology projects.

***Modernized e-File Release and Post Deployment*** (2006 – Work in Process)

**Audit Objective:** Determine whether the Modernized e-File project's release activities are ensuring its electronic filing capabilities are efficiently providing the intended benefits to the IRS and taxpayers.

***Establishment of the Enterprise Services' Organization*** (2006 – Work in Process)

**Audit Objective:** Review the establishment and effectiveness of the Enterprise Services Organization.



***Filing and Payment Compliance Development Project*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS has followed TIGTA recommendations by effectively revalidating the Alternatives Analysis, properly documenting support for the decision to purchase commercially available software, and revising the business case (Exhibit 300), if warranted.

***Contracting Processes (Follow-up)*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS has improved its contract negotiation and contract management practices for the Business Systems Modernization program.

***Role and Cost of the Federally Funded Research & Development Center*** (2006 – Work in Process)

**Audit Objective:** Determine whether the Federally Funded Research & Development Center contractor effectively delivered services and the IRS effectively and timely monitored the contractor's performance.

***Transition of the System Integrator Role from the PRIME<sup>2</sup> Contractor to IRS*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS is sufficiently planning, obtaining resources, and executing modernization activities to transition activities from the PRIME contractor for the Business Systems Modernization program.

***Status of Legacy Systems and Aging Infrastructure*** (2006 – Work in Process)

**Audit Objective:** At the request of the IRS' Chief Information Officer, 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.

***Electronic Fraud Detection System (Follow-up)*** (2006 – Work in Process)

**Audit Objective:** Determine if the IRS is adequately monitoring the contractor's development efforts in 2006 to ensure a system is delivered in time for the 2007 tax return filing season.

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<sup>2</sup> The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology

***Desktop Storage Management Practices*** (2006 – Work in Process)

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

***The IRS' Use of Telecommunications Services Offered through the Department of the Treasury Contract*** (2006 – Work in Process)

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

***Tax Exempt Determination System Release 2*** (2006 – Work in Process)

**Audit Objective:** Determine whether the Tax Exempt and Government Entities Division is developing the Tax Exempt Determination System Release 2 using accepted project management techniques.

***Automated Trust Fund Recovery Program*** (2006 – Work in Process)

**Audit Objective:** At the request of the IRS, determine the effectiveness of IRS processes to accurately account for Trust Fund Recovery revenue.

## Tax Compliance Initiatives List of Planned Audits for Fiscal Year 2007

*Tax compliance initiatives include the need to administer tax regulations and collect tax dollars for businesses and individuals as well as overseeing tax-exempt and government entities for compliance.*

### ***Review of Debit Balance Accounts Suspended from Collection***

***Activity*** (2007 – New Start)

**Audit Objective:** Determine whether there are areas where the IRS could improve resolution of business debit balance accounts.

### ***Misclassification of Employees as Independent Contractors*** (2007 – New Start)

**Audit Objective:** Evaluate the actions the IRS has taken to address the misclassification of employees as independent contractors.

### ***Large and Mid-Size Business - Survey Before Assignment*** (2007 – New Start)

**Audit Objective:** Determine how the division of business taxpayers between the Small Business/Self-Employed Large and Mid-Size Business Operating Divisions affects audit coverage and the allocation of resources.

### ***The IRS' Oversight of the Deferral of Capital Gains Tax Through Like-Kind Exchanges*** (2007 – New Start)

**Audit Objective:** Evaluate what steps the IRS has taken to address tax fraud and money laundering schemes involving like-kind exchanges that have proliferated as a result of the booming real estate market.

### ***Employment Tax Compliance*** (2007 – New Start)

**Audit Objective:** Determine what efforts the IRS currently has underway to address employment tax compliance service-wide, and whether those efforts appear adequate.

***Large and Mid-Size Business - Compliance Assurance Process***

*(2007 – New Start)*

**Audit Objective:** Assess the potential of the Compliance Assurance Process and review the results of the Tax Year 2005 pilot project to determine if continuation and/or expansion of the program is warranted.

***Withholding Compliance*** *(2007 – New Start)*

**Audit Objective:** Evaluate the effectiveness of the IRS' actions on under-withheld compliance cases.

***Return Preparer Program*** *(2007 – New Start)*

**Audit Objective:** Evaluate the effectiveness of the IRS' oversight of tax return preparers.

***Correspondence Examination - Case Selection*** *(2007 – New Start)*

**Audit Objective:** Evaluate whether the Correspondence Examination case selection criteria provides representative coverage of taxpayer income levels to address reporting non-compliance and increase revenue.

***Automated Underreporter - Case Selection*** *(2007 – New Start)*

**Audit Objective:** Evaluate the Automated Underreporter Program process for selecting and resolving cases and for managing workload.

***Exempt Organizations Function's Strategy to Improve Form 990 Filing Compliance*** *(2007 – New Start)*

**Audit Objective:** Evaluate the Exempt Organizations function's strategy for improving compliance with Return of Organization Exempt from Income Tax (Form 990) filing requirements.

***Exempt Organizations Function's Workload Identification Process*** *(2007 – New Start)*

**Audit Objective:** Assess the Exempt Organizations function's strategic process to identify and prioritize cases with the highest risk of noncompliance.

***Exempt Organizations' Group Ruling Process (2007 – New Start)***

**Audit Objective:** Assess the effectiveness of the Exempt Organizations' group ruling exemption process.

***Tax Exempt Bond Office's Examination Case Selection (2007 – New Start)***

**Audit Objective:** At the request of the Tax Exempt & Government Entities Division, determine the effectiveness of the Tax Exempt Bond office's process for selecting cases for examination.

***Employee Plans Compliance Unit (2007 – New Start)***

**Audit Objective:** Determine whether the implementation of the Employee Plans Compliance Unit is achieving its intended purpose of increasing taxpayer contacts while simultaneously having a positive impact on compliance.

***Coordination of Tip Rate Determination and Education Program for Indian Tribal Governments (2007 – New Start)***

**Audit Objective:** Evaluate the effectiveness of the coordination of the Tip Rate Determination and Education Program.

***Selection of Individual Tax Returns using National Research Project Results (2007 – New Start)***

**Audit Objective:** At the request of the IRS Oversight Board and the IRS, evaluate the effectiveness of using National Research Project results for selecting tax returns for examination.

***Balance Due Notice Program (2007 – New Start)***

**Audit Objective:** Determine whether the campus collection function is taking appropriate actions when closing balance due cases.

***Taking Enforcement Actions on Taxpayer Delinquent Accounts (2007 – New Start)***

**Audit Objective:** Determine whether revenue officers follow the enforcement guidelines established for collecting taxpayer delinquent accounts.

***Large Dollar Cases Assigned to the Automated Collection System Function*** (2007 – New Start)

**Audit Objective:** Determine whether the Automated Collection System function timely and properly works large dollar accounts.

***Sales of Seized Property*** (2007 – New Start)

**Audit Objective:** Determine whether proper procedures are followed when selling assets seized by the IRS collection function.

***Pick up of Related Years on Tax Return Examinations*** (2007 – New Start)

**Audit Objective:** Determine whether tax examiners review prior and subsequent tax years when identifying tax issue adjustments.

***Compliance Trends*** (2007 – New Start)

**Audit Objective:** Provide various statistical information regarding examination and collection activities.

***Statistical Portrayal of Criminal Investigation Activities*** (2007 – New Start)

**Audit Objective:** Provide statistical information and trend analyses of the nationwide enforcement statistics pertaining to the Criminal Investigation Division.

***Coordination with Department of Justice on Pipeline Inventory*** (2007 – New Start)

**Audit Objective:** At the request of the IRS, determine the effectiveness of the coordination between the IRS' Criminal Investigation Division and the Department of Justice's U.S. Attorney offices to ensure cases recommended for prosecution are timely presented to the courts.

***Criminal Investigation's Tax Exempt Charitable Organization Fraud Program*** (2007 – New Start)

**Audit Objective:** Evaluate the methods used by the Criminal Investigation Division to successfully identify and prosecute charitable organizations that are fronts for terrorist financing activities.

***Mismatch Names & Social Security Numbers on Information Returns Documents*** (2007 – New Start)

**Audit Objective:** Determine the impact and magnitude of the mismatch of names and Social Security Numbers on information return documents.

***International Taxation Program*** (2007 – New Start)

**Audit Objective:** Evaluate the appropriateness and impact of the international taxation program.

***Review of Business Masterfile<sup>1</sup> Credit Balance Accounts*** (2006 – Work in Process)

**Audit Objective:** Determine whether there are areas where the IRS could improve resolution of Business Masterfile accounts with credit balances.

***E-Help Desk*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS' E-Help Desk Program is providing quality customer service.

***Error Account Closures in the Tax Exempt Bond Office*** (2006 – Work in Process)

**Audit Objective:** At the request of the Tax Exempt & Government Entities Division, determine if actions to close tax-exempt bond examinations by the use of Disposal Code 33 (Opened In Error) were appropriate and complied with IRS guidelines.

***Exempt Organizations Function's Oversight Activities Related to Tax-Exempt Hospitals*** (2006 – Work in Process)

**Audit Objective:** At the request of the Senate Finance Committee, determine the purpose and scope of the Exempt Organizations function's tax-exempt hospital project and how function management intends to address potential noncompliance in the industry.

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<sup>1</sup> The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

***Exempt Organizations Function's Efforts to Identify Organizations and/or Individuals Potentially Involved in Terrorist Related Activities*** (2006 – Work in Process)

**Audit Objective:** Assess the effectiveness of the Exempt Organizations function's efforts to identify organizations and individuals potentially involved in terrorist related activities during the determinations process and when processing Returns of Organization Exempt From Income Tax (Form 990).

***Federal, State, and Local Government Office's Efforts to Improve Information Return Compliance*** (2006 – Work in Process)

**Audit Objective:** Determine the impact of actions taken by the Federal, State and Local Government office to improve state and local governments' compliance with information return filing requirements.

***Employee Plans Function's Process for Evaluation of Referrals of Noncompliance*** (2006 – Work in Process)

**Audit Objective:** At the request of the Tax Exempt & Government Entities Division, assess the Employee Plans function's process for evaluating and prioritizing referrals of noncompliance to ensure high risk referrals are worked.

***Centralized Offers-In-Compromise - Schedule C*** (2006 – Work in Process)

**Audit Objective:** At the request of the IRS, determine whether the Centralized Offer-In-Compromise function properly resolves offers for taxpayers with Profit or Loss from business (Schedule C) and evaluate the impact that the program will have on the Collection Field function.

***National Research Project - Flowthrough*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS is effectively implementing the National Research Project of Subchapter S Corporation taxpayers.

***Partial Pay Installment Agreements*** (2006 – Work in Process)

**Audit Objective:** Determine whether decisions to accept Partial Pay Installment Agreements are proper; evaluate the effect that the program has on the Offer-In-Compromise program; and determine the effectiveness of how the Partial Pay Installment Agreements program is being measured.



***Fraud Referrals*** (2006 – Work in Process)

**Audit Objective:** Evaluate the role of the Fraud Coordinator position and determine whether returns are referred to the Criminal Investigation function when appropriate.

***Compliance Activities Related to Disaster Relief*** (2006 – Work in Process)

**Audit Objective:** Determine whether the Examination and Collection functions were taking compliance actions on cases for taxpayers that were in designated Hurricane Tax Relief areas.

***Federal Tax Deposit Alerts*** (2006 – Work in Process)

**Audit Objective:** Evaluate the effectiveness of using Federal Tax Deposit Alerts to prevent the pyramiding of taxes.

***Review of Campus Delinquency Investigations*** (2006 – Work in Process)

**Audit Objective:** Determine whether the campuses are taking proper actions to obtain tax returns prior to closing cases.

***Review of the Centralized Lien Processing Operation*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS has taken appropriate actions to ensure that the Centralized Lien function is operating effectively.

***Review of the Centralized Insolvency Operation*** (2006 – Work in Process)

**Audit Objective:** Evaluate the controls used in the Centralized Insolvency Operation to ensure that taxpayers' rights and the government's interest are protected during bankruptcy proceedings.

***No Response Examination Cases*** (2006 – Work in Process)

**Audit Objective:** Identify the causes for taxpayers not responding to exam notices and determine whether actions are sufficient prior to closing cases.

***Examination of Returns With Hobby Losses*** (2006 – Work in Process)

**Audit Objective:** Evaluate the effectiveness of examination procedures for those

taxpayers who claim hobby losses on their tax returns.

***Collection of Tax Delinquent Accounts for Estate Taxes*** (2006 –  
*Work in Process*)

**Audit Objective:** Evaluate the effectiveness of efforts to collect tax delinquent accounts for estate taxes.

***Review of Government Entity Agency Form 941 Delinquencies***  
(2006 – *Work in Process*)

**Audit Objective:** At the request of the IRS, determine whether the IRS has taken effective steps to collect delinquent employment taxes and secure delinquent returns owed by Federal, State and local government entities.

***Employee Tax Compliance Program*** (2006 – *Work in Process*)

**Audit Objective:** Evaluate how well the Employee Tax Compliance Program has been implemented.

## Security of the Internal Revenue Service List of Planned Audits for Fiscal Year 2007

*The IRS has made steady progress in complying with the Federal Information Security Management Act (FISMA)<sup>1</sup> since the enactment of FISMA in 2002. During 2006, the IRS reassessed the security risks of each of its systems. We are now confident that the inventory is substantially complete and the risk categorizations for its systems are accurate. The IRS also made significant improvements in the security certification and accreditation process. Computer security is still designated a material weakness in the IRS and much work needs to be done to deter and detect hackers from gaining access to IRS systems, and employees from abusing their access privileges.*

### ***Domain Naming Servers Security*** (2007 – New Start)

**Audit Objective:** Determine if the IRS Domain Naming Servers, software and data are secure and available to those who need access.

### ***Security of External Internet Gateways for Business Partners*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS maintains a firewall on all business partner connections with its network, how the connections are maintained, and what traffic is allowed to pass through the connections.

### ***Web Servers*** (2007 – New Start)

**Audit Objective:** Assess the security of the IRS' web servers by reviewing the registration process, encryption of data traffic, patching of software, and maintenance of the administrative functions.

### ***Review of Homeland Security Presidential Directive-12 Personal Identification Verification Phase II*** (2007 – New Start)

**Audit Objective:** Determine if the IRS is complying with Homeland Security Presidential Directive-12, Personal Identity Verification Phase 2. By October 2007, agencies must complete background checks for employees with less than 15 years of service.

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<sup>1</sup> The FISMA is part of the E Government Act of 2002, Pub. L. No. 107-347, Title III, Section 301, 2002.

***Penetration Test (Follow up)*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS effectively addressed the vulnerabilities identified in prior tests.

***Federal Information Security Management Act*** (2007 – New Start)

**Audit Objective:** Determine the progress made by the IRS in meeting the responsibilities established by the National Institute of Standards and Technology and the Office of Management and Budget.

***Computer Security Material Weakness*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS has effectively resolved the vulnerabilities relating to IRS computer security material weakness.

***Web Consolidation*** (2007 – New Start)

**Audit Objective:** Evaluate the implementation of the consolidation of the management of IRS Web sites.

***Review of IRS Computer Security Standards and Computer Security Testing Tools*** (2007 – New Start)

**Audit Objective:** Determine the adequacy of IRS computer security standards and computer security testing tools.

***Review of Security over Health and Human Services Data*** (2007 – New Start)

**Audit Objective:** At the request of the IRS' Criminal Investigation Division, evaluate the security over data provided by the Department of Health and Human Services for the Criminal Investigation Division's Questionable Refund Program.

***Continuous System Monitoring*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS has policies and procedures required by the Federal Information Security Management Act for continuous monitoring of management, operational, and technical controls.

***Security Review of Modernized e-File*** (2007 – New Start)

**Audit Objective:** Determine whether the security controls for the Modernized e-File application meet established standards.

***Review of Data Shared with States (Follow up)*** (2007 – New Start)

**Audit Objective:** Determine the security of federal tax information that is transmitted to State governments.

***Local Area Network Infrastructure*** (2007 – New Start)

**Audit Objective:** Assess the IRS' plans and implementation efforts for funding and replacing its aging network infrastructure.

***Network Management Control Center*** (2007 – New Start)

**Audit Objective:** Determine the effectiveness of the Network Management Control Center for ensuring a consistent, reliable, highly available, and secure network for the IRS and its ability to continue to expand as the IRS modernization program advances.

***Homeland Security Presidential Directive-12 Personal Identification Verification*** (2006 – Work in Process)

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

***Wireless (Follow-up)*** (2006 – Work in Process)

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

***The IRS' Background Investigation Process*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS' current background investigation process ensures that investigations are completed timely and effectively, and assures IRS management that employees and contractors are suitable for employment.

***Privacy and Protection of Taxpayer Identities*** (2006 – Work in Process)

**Audit Objective:** Assess the level of privacy provided to protect taxpayer identities.

***Protection of Sensitive Data on Electronic Media*** (2006 – Work in Process)

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

***Non-Secure Network Services*** (2006 – Work in Process)

**Audit Objective:** Determine if the IRS is properly restricting and controlling the use of non-secure services for network communications within their internal network.

***Security over Remote Systems Administration*** (2006 – Work in Process)

**Audit Objective:** Determine whether controls are adequate to ensure that remote access to IRS systems is limited to those who need it.

***Mission Assurance & Security Services Responsibility*** (2006 – Work in Process)

**Audit Objective:** Determine the overall effectiveness of the Mission Assurance & Security Services organization in meeting its responsibilities.

***Internet Gateways*** (2006 – Work in Process)

**Audit Objective:** Determine the effectiveness of controls for preventing unauthorized access to IRS systems from the Internet.

***Database Controls*** (2006 – Work in Process)

**Audit Objective:** Determine the effectiveness of database controls for protecting sensitive information on IRS systems.

## Providing Quality Taxpayer Service Operations List of Planned Audits for Fiscal Year 2007

*The IRS is developing a 5-year Taxpayer Assistance Blueprint which will help it focus on providing the appropriate types and amounts of service. However, the TIGTA continues to identify the need for improvements in its taxpayer services provided through toll-free, face-to-face, and electronic methods.*

### ***Fed/Fed Program*** (2007 – New Start)

**Audit Objective:** At the request of the IRS, determine if the Small Business/Self Employed Division's Fed/Fed program is meeting its goals of providing a systemic approach to developing initiatives with other federal agencies.

### ***High Dollar Refunds Returned by the United States Postal Service as Undeliverable*** (2007 – New Start)

**Audit Objective:** Determine if large dollar refund checks returned as undeliverable by the United States Postal Service were eventually reissued to the same address, and what steps the IRS has taken to alleviate this problem.

### ***Tax Issues Facing Older Taxpayers*** (2007 – New Start)

**Audit Objective:** Identify tax provisions that specifically affect older taxpayers and determine if the taxpayers understand the provisions, receive an appropriate amount of education/customer service, and are receiving intended benefits.

### ***Data and Assumptions Used to Develop the Taxpayer Assistance Blueprint*** (2007 – New Start)

**Audit Objective:** Determine if the Taxpayer Assistance Blueprint is using accurate, relevant, and reliable assumptions and data.

### ***Efficiency and Effectiveness of Processing Heavy Highway Vehicle Use Tax Return (Forms 2290)*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS has an efficient and effective process for processing Heavy Highway Vehicle Use Tax Return (Forms 2290) tax returns.

### ***Impact of Unnecessary Tax Return Filings on Tax***

#### ***Administration (2007 – New Start)***

**Audit Objective:** Determine if the IRS has a strategy to reduce unnecessary tax return filings.

### ***Implementation of the Virtual Translation Office (2007 – New Start)***

**Audit Objective:** Determine whether the Virtual Translation Office meets the needs of Limited English Proficient taxpayers.

### ***Internal Revenue Service Strategy to Assist Vision Impaired***

#### ***Taxpayers (2007 – New Start)***

**Audit Objective:** Determine whether taxpayers with vision impairments are provided quality service.

### ***Quality of Service at Volunteer Income Tax Assistance Sites - 2007 Filing Season (2007 – New Start)***

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

### ***Taxpayer Experience During 2007 Filing Season (2007 – New Start)***

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

### ***Toll-Free Access 2007 Filing Season (2007 – New Start)***

**Audit Objective:** Evaluate customer service toll-free telephone access during the 2007 Filing Season.

### ***Use of Research Results to Improve Wage and Investment***

#### ***Division Operations (2007 – New Start)***

**Audit Objective:** Determine whether research results are used to improve Wage and Investment Division operations.



***Transfer of Tax Exempt and Government Entities Call Site  
Responsibility to Wage & Investment Division (2007 – New Start)***

**Audit Objective:** Determine whether processes will ensure that Tax Exempt and Government Entities customers will continue to receive timely and accurate information through the telephone operation operated by Wage & Investment Division management.

***Accuracy of Carryback Adjustments (2007 – New Start)***

**Audit Objective:** Determine whether carryback adjustments from individual taxpayer claims for tentative refund (Forms 1045 and Forms 1040X) are accurate.

***Appeals' Fast Track Programs (2007 – New Start)***

**Audit Objective:** Determine the status and effectiveness of the Office of Appeals' Fast Track programs as more taxpayers with varying issues, backgrounds, representation, and sophistication levels are given these options to resolve disputes with the IRS.

***Tax Counseling for the Elderly Grants (2007 – New Start)***

**Audit Objective:** Determine if the Tax Counseling for the Elderly Grants are effectively administered.

***Profile of Indian Tribal Government Office's Customer Base  
(2006 – Work in Process)***

**Audit Objective:** Review IRS Masterfile data to create a profile of the Indian Tribal Government offices customer base for tax year 2000 – tax year 2004.

***Indian Tribal Governments' Customer Satisfaction Process (2006  
– Work in Process)***

**Audit Objective:** At the request of the Tax Exempt & Government Entities Division, determine if the process used by the Indian Tribal Governments office to identify customer satisfaction produces valid and useful results. Also, determine if the office uses the data effectively.

***Administration of the Free File Program (2006 – Work in Process)***

**Audit Objective:** At the request of the Senate Finance Committee, determine how effectively the IRS is administering the Free File Program.

***Impact of the Elimination of TeleFile*** (2006 – Work in Process)

**Audit Objective:** At the request of the Senate Finance Committee, determine the impact of the elimination of the TeleFile Program on electronic filing.

***Effectiveness of the Correspondence Imaging System*** (2006 – Work in Process)

**Audit Objective:** Determine the timeliness and accuracy of processing taxpayer correspondence cases through the Correspondence Imaging System.

***Appeals Campus Operations*** (2006 – Work in Process)

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

***Operations Assistance Requests*** (2006 – Work in Process)

**Audit Objective:** At the request of the National Taxpayer Advocate, evaluate the effectiveness of the Operations Assistance Requests by determining if the IRS operating divisions and functions are processing them on a timely basis and if the Taxpayer Advocate Service has an effective method to track them.

***Financial Hardship Criteria*** (2006 – Work in Process)

**Audit Objective:** Determine whether the financial hardship criteria used by the Taxpayer Advocate Service is adequately applied.

***Appeals Case Files*** (2006 – Work in Process)

**Audit Objective:** Determine if the IRS is maintaining duplicate files between the Office of Appeals and Compliance functions.

## Complexity of the Tax Law List of Planned Audits for Fiscal Year 2007

*The complexities of the tax law affect the ability of the IRS to administer the nation's tax system. Without meaningful tax code simplification, it is likely that the complexities of the current tax code will continue to contribute to the tax gap.*

### ***Tax Implications of an Aging Population*** (2007 – New Start)

**Audit Objective:** Determine what impact the aging U.S. population has on the composition of Wage and Investment tax returns with capital gains, pensions and annuities, Social Security Administration benefits, IRA distributions, and health care-related deductions.

### ***Determination of Whether Tax Incentives are Achieving the Objectives of Congress*** (2007 – New Start)

**Audit Objective:** Provide an assessment of whether identified tax credits or incentives, such as savings, education, and health care, achieve the objectives envisioned by Congress when the tax laws were passed and implemented.

## Using Performance and Financial Information for Program and Budget Decisions List of Planned Audits for Fiscal Year 2007

*The IRS cannot produce timely, accurate, and useful information needed for day-to-day decisions which inhibits the IRS' ability to address financial management and operational issues to fulfill its responsibilities as the nation's tax collector.*

### ***Accuracy of Taxpayer Service Cost Savings and Efficiency***

***Estimates*** (2007 – New Start)

**Audit Objective:** Determine whether the Wage and Investment Division can accurately account for its cost savings and efficiency estimates.

### ***Contact Recording - Field Assistance Office*** (2007 – New Start)

**Audit Objective:** Determine whether Contact Recording provides sufficient reliable data to be used to report the Field Assistance Office performance measures.

### ***Field Assistance Office Strategy to Improve Management***

***Information Systems (Follow-Up)*** (2007 – New Start)

**Audit Objective:** Assess the Field Assistance Office's corrective actions to improve its management information system.

### ***Information Technology Assets Management System Inventory***

(2007 – New Start)

**Audit Objective:** Determine if the IRS' inventory of Tier I and Tier II computer equipment on the Information Technology Assets Management System is complete and accurate.

***Competitive Sourcing Initiatives / Modernization & Information Technology Services Improvement Strategy and Plan Effectiveness / Printer/Server Consolidation Follow-up*** (2007 – New Start)

**Audit Objective:** At the request of the IRS Oversight Board, determine if the IRS' efforts to improve the competitive sourcing process have yielded positive and measurable results.

***Leasing of Computer Equipment*** (2007 – New Start)

**Audit Objective:** Determine what computer equipment is owned versus leased and verify that a cost benefit analysis was properly done to support the decision.

***Effectiveness of Year-End Spending*** (2007 – New Start)

**Audit Objective:** At the request of the IRS, determine whether the IRS is effectively managing its year-end spending practices.

***Performance Based Contracting*** (2007 – New Start)

**Audit Objective:** At the request of the IRS, determine whether the IRS is effectively managing its use of performance based contracting.

***Contracting Officer's Technical Representative Effectiveness***  
(2007 – New Start)

**Audit Objective:** Determine whether Contracting Officer's Technical Representatives are functioning in an effective manner as directed by the responsible Contracting Officers.

***Contract Type Decisions*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS is selecting the most effective and efficient contracting methods to obtain needed goods and services.

***8(a) Contractors*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS is effectively managing its use of the 8(a) contracting program.

***Federal Financial Management Improvement Act<sup>1</sup> Remediation Plan*** (2007 – New Start)

**Audit Objective:** Report to the Congress, as required by the Federal Financial Management Improvement Act, any instances and reasons for missed intermediate target dates established in the IRS' remediation plan, and evaluate whether the IRS is meeting its responsibilities in fulfilling the intent of the Act.

***Cost Accounting Implementation*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS has an effective long-term strategy to guide its efforts to develop and implement a comprehensive and reliable cost accounting system.

***Accounting for Business Systems Modernization Funding*** (2006 – Work in Process)

**Audit Objective:** Determine if the Modernization & Information Technology Services organization has implemented adequate cost accounting practices and made improvements in the planning and monitoring of the budget appropriations processes.

***Review of the Treasury Working Capital Fund*** (2006 – Work in Process)

**Audit Objective:** At the request of the IRS, determine whether the IRS has established effective controls over the disbursements it makes in connection with the Treasury Working Capital Fund.

***Capital Expenditures (Follow-up)*** (2006 – Work in Process)

**Audit Objective:** Determine whether the IRS is managing its information technology investments in compliance with the Office of Management and Budget and Clinger-Cohen Act requirements.

***Human Capital Office Performance Measures*** (2006 – Work in Process)

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

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<sup>1</sup> Federal Financial Management Improvement Act of 1996, Pub. L. No. 104-208, 110 Stat. 3009

***Effectiveness of the IRS' Research Structure*** (2006 – Work in Process)

**Audit Objective:** At the request of the IRS Oversight Board, determine if the research function is appropriately structured, organized, and managed.

***Government Performance and Results Act<sup>2</sup>*** (2006 – Work in Process)

**Audit Objective:** Determine if the IRS' Strategic and Annual Plans meet the requirements of the Government Performance and Results Act and fully address the priorities of the IRS.

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<sup>2</sup>Government Performance and Results Act of 1993 (GPRA), 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.).

## Erroneous and Improper Payments List of Planned Audits for Fiscal Year 2007

*For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.*

### ***High Amount of Interest Paid to Taxpayers*** (2007 – New Start)

**Audit Objective:** Determine the amount of interest disbursed to Small Business/Self Employed Division taxpayers, the issues that precede the payment of interest, and if any issues involving the significant disbursement of interest could be avoided.

### ***Improper Payment Information Act*** (2007 – New Start)

**Audit Objective:** Determine if the IRS has taken effective actions to minimize improper payments in compliance with the Improper Payment Information Act of 2002.

### ***Assistance to Contract Fraud Investigations*** (2007 – New Start)

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

### ***Payments and Fees to Private Debt Collection Contractors*** (2007 – New Start)

**Audit Objective:** Determine whether payments made and fees disbursed to the private debt collection contractors were appropriate and in accordance with the contract's terms and conditions.

### ***Voucher and Invoice Review*** (2007 – New Start)

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



***Low Income Tax Clinics Financial Review (2007 – New Start)***

**Audit Objective:** Determine whether Low-Income Taxpayer Clinics complied with the grant terms and conditions and the applicable laws and regulations related to the management of federal funds.

***Questionable Refund Program Phase II (2007 – New Start)***

**Audit Objective:** At the request of the House Committee on Ways and Means, determine the effectiveness of IRS processes to identify questionable refunds by evaluating the validity of the scoring methodology used by the Criminal Investigation function to identify potentially fraudulent refund returns (data mining), and by compiling demographic profiles of taxpayers.

***Administration and Budgeting of the Earned Income Tax Credit Program (2007 – New Start)***

**Audit Objective:** Evaluate the progress the IRS has made in improving the administration of the Earned Income Tax Credit Program.

***Actions Taken as a Result of the Earned Income Tax Credit Proof of Concept Tests (2007 – New Start)***

**Audit Objective:** Determine whether the IRS has an effective updated plan to complete the evaluation of the Earned Income Tax Credit Proof of Concept tests and established a timeline for possible implementation, and if so, has an effective plan to communicate the implementation to all affected stakeholders.

***Earned Income Tax Credit Recertification (Follow-up) (2007 – New Start)***

**Audit Objective:** Determine if the IRS has taken effective corrective actions to address our previously reported issues, evaluate the current status of the program, and determine if it is meeting the intent of the legislation to reduce erroneous Earned Income Tax Credit claims.

***Invoice Audit-Contract TIRNO-03-K-00167 (2006 – Work in Process)***

**Audit Objective:** Determine whether selected invoices submitted and paid under contract TIRNO-03-K-00167 were appropriate and in accordance with the contract's terms and conditions.

***Voucher Audit-TIPSS 2 Contract TIRNO-00-D-00014*** (2006 – Work in Process)

**Audit Objective:** Determine whether selected vouchers submitted and paid under contract TIRNO-00-D-00014 were appropriate and in accordance with the contract's terms and conditions.

***Invoice Audit of the Management of Seized and Forfeited Assets Contract*** (2006 – Work in Process)

**Audit Objective:** Determine whether selected invoices submitted and paid under contract TIRNO-05-C-00010 were appropriate and in accordance with the contracts' terms and conditions.

***Questionable Refund Program*** (2006 – Work in Process)

**Audit Objective:** At the request of the House Committee on Ways & Means, determine the effectiveness of the IRS' procedures for detecting fraudulent and potentially fraudulent refund returns.

## Taxpayer Protection and Rights List of Planned Audits for Fiscal Year 2007

*The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of RRA 98<sup>3</sup>.*

### ***Restrictions on the Use of Enforcement Statistics*** (2007 – New Start)

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

### ***Taxpayer Designations - Illegal Tax Protester and Non-filer Designation*** (2007 – New Start)

**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*** (2007 – New Start)

**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*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS is complying with the provisions of the Taxpayer Bill of Rights 2 and 26 United States Code (U.S.C.) § 6103(e)(8).

### ***Restrictions on Directly Contacting Taxpayers*** (2007 – New Start)

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

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<sup>3</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 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.).

***Identity Theft Procedures and Guidelines (2007 – New Start)***

**Audit Objective:** Evaluate the effectiveness of the Wage & Investment Division's procedures for resolving identity theft cases and providing appropriate information to taxpayers.

***Innocent Spouse Referral Cases (2007 – New Start)***

**Audit Objective:** Evaluate the controls over forwarding Innocent Spouse cases for processing.

***Screening and Monitoring of Electronic Return Originators (Follow-up Audit) (2007 – New Start)***

**Audit Objective:** Assess the effectiveness of the Internal Revenue Service's corrective actions to screen and monitor Electronic Return Originators.

***Private Debt Collection - Phase III (2007 – New Start)***

**Audit Objective:** Determine whether the contractors are following required procedures and evaluate the effectiveness of the program.

***Identity Theft of Dependant Social Security Numbers (2007 – New Start)***

**Audit Objective:** Determine whether the IRS has adequate controls in place to identify the potential identity theft of dependent Social Security Numbers and prevent the fraudulent filing of individual tax returns.

***Taxpayer Identity on IRS Correspondence (2007 – New Start)***

**Audit Objective:** Determine actions taken or planned by the IRS to identify notices where the Taxpayer Identification Numbers can be shortened to last four digits or eliminated from the notice.

***Denials of Requests for Information - FY 2007 (2007 – New Start)***

**Audit Objective:** Determine annually if the IRS improperly withheld information requested by taxpayers in writing, based on Freedom of Information Act<sup>4</sup> provisions and Internal Revenue Code Section 6103 or by replying that responsive records were not available.

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<sup>4</sup> Freedom of Information Act (FOIA), 5 U.S.C.A. § 552 (West Supp. 2003).

***Collection Due Process*** (2007 – New Start)

**Audit Objective:** Determine annually if the IRS complied with legal provisions when taxpayers exercised their right to appeal the filing of a lien or issuance of intent to levy; this is commonly referred to as the Collection Due Process.

***Fair Tax Compliance*** (2007 – New Start)

**Audit Objective:** Annually obtain information on IRS administrative or civil actions resulting from violations of the Fair Tax Collection Practices.

***Electronically Filed Returns with No Income Data*** (2006 – Work in Process)

**Audit Objective:** At the request of the IRS, determine the extent to which electronic income tax returns reporting no wages or taxable income, but reporting income tax withheld, are being filed by taxpayers and processed by the IRS.

***Review of American Jobs Creation Act of 2004<sup>5</sup> - Provisions 883 & 884*** (2006 – Work in Process)

**Audit Objective:** Evaluate the implementation of Section 883 and Section 884 of the American Jobs Creation Act of 2004, and the processing of individual income tax returns reporting deductions for non-cash contributions.

***Taxpayer Notice Trends*** (2006 – Work in Process)

**Audit Objective:** Identify taxpayers that repeatedly receive the same taxpayer notice over multiple tax periods and determine if the IRS could better address the issues that have necessitated repetitive notices.

***Separating Joint Accounts on Innocent Spouse Cases*** (2006 – Work in Process)

**Audit Objective:** Evaluate controls to ensure that the rights of the spouses requesting relief and their non-requesting spouses are protected while the IRS processes requests for Innocent Spouse relief.

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<sup>5</sup> American Jobs Creation Act of 2004, Pub. L. No. 108-357, 118 Stat. 1418 (2004).

***Private Collection Agencies (Phase II)*** (2006 – Work in Process)

**Audit Objective:** Evaluate the effectiveness of the IRS' implementation of the Private Debt Collection program.

***Mandatory Review of Seizures*** (2006 – Work in Process)

**Audit Objective:** Determine compliance with certain taxpayer rights provisions required by law.

***Mandatory Levies*** (2006 – Work in Process)

**Audit Objective:** Determine compliance with certain taxpayer rights provisions required by law.

***Mandatory Liens*** (2006 – Work in Process)

**Audit Objective:** Determine if liens issued by the IRS comply with legal guidelines set forth in the Internal Revenue Code and related guidance in the Federal Tax Lien Handbook.

***Electronic Crimes Program*** (2006 – Work in Process)

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

***Parallel Investigations*** (2006 – Work in Process)

**Audit Objective:** At the request of the IRS, determine if the IRS' increased use of parallel investigations and proceedings are appropriate, protect taxpayers' rights, and comply with select laws.

***Chief Counsel's Advance Case Resolution Program*** (2006 – Work in Process)

**Audit Objective:** Determine if the Advance Case Resolution Program is effectively and efficiently administered by the Office of Chief Counsel.

## Processing Returns and Implementing Tax Law Changes During the Tax Filing Season List of Planned Audits for Fiscal Year 2007

*Correctly implementing tax law changes is a continuing challenge because the IRS must identify the tax law changes; revise the various tax forms, instructions, and publications; and reprogram the computer systems used for processing returns.*

### ***Phone Tax Refunds*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS is taking proper steps to facilitate the refunding of the federal excise tax on toll telephone services, and whether the IRS has adequate controls to protect itself against fraudulent claims for these refunds.

### ***Adequacy of Controls Over Processing Payments in Lockbox Banks*** (2007 – New Start)

**Audit Objective:** Evaluate the adequacy of the controls established to process payments received in lockbox banks.

### ***Verifications of Carryforwards*** (2007 – New Start)

**Audit Objective:** Determine whether taxpayers carry forward the proper amount of unused tax credit from year to year and if there are ways the IRS could readily verify these amounts.

### ***Use of Employer’s Annual Federal Tax Return (Form 944)*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS properly notified eligible taxpayers of the new Employer’s Annual Federal Tax Return (Form 944), whether they are using the new form, and if the IRS properly processed the returns.

### ***2007 Filing Season*** (2007 – New Start)

**Audit Objective:** Evaluate whether the IRS timely and accurately processes individual paper and electronically filed tax returns during the 2007 Filing Season.

***Customer Account Data Engine - Release 2*** (2007 – New Start)

**Audit Objective:** Determine if the Customer Account Data Engine accurately and timely posts returns and related refunds, and if additional functionality added to Release 2 is working as intended.

***Tax Law Changes for 2007*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS has identified all new tax law legislation and ensured all affected forms, instructions and publications are accurate.

***Assessment of the IRS E-file Program*** (2007 – New Start)

**Audit Objective:** Provide an assessment of the progress that the IRS has made with its e-file Program.

***Evaluation of the Use of Electronic Tax Payments for Individual Taxpayers*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS strategy for electronic payment of taxes has included adequate and effective coverage of the Electronic Federal Tax Payment System as a payment option for individuals and whether the IRS has addressed any concerns to make the system a better option for taxpayers.

***Accuracy of Processing Tax Returns with Alternative Minimum Tax*** (2007 – New Start)

**Audit Objective:** Determine whether the IRS computer systems accurately identify and compute the Alternative Minimum Tax for taxpayers who may be liable, both those who claim it and those who did not but should.



## Human Capital List of Planned Audits for Fiscal Year 2007

*Like much of the Federal Government, managing the extensive human capital resources at the IRS remains one of the IRS' major management challenge areas.*

### ***Safety, Health and Return to Employment Initiative*** (2007 – New Start)

**Audit Objective:** Determine if the IRS has achieved the performance improvements outlined in the initiative and if the IRS has implemented the corrective actions proposed in response to a previous audit.

### ***Use of Sick Leave by IRS Employees*** (2007 – New Start)

**Audit Objective:** Evaluate the use of sick leave by IRS employees.

### ***Review of the IRS' Paybanding System*** (2006 – Work in Process)

**Audit Objective:** Evaluate the effectiveness and costs associated with converting and implementing the IRS' alternative pay systems.

## Other List of Planned Audits for Fiscal Year 2007

*There are some high-risk areas that do not completely fit within one of the Major Management Challenge areas, and are listed here.*

### ***Real Estate and Facilities Management Record Retention Project*** (2007 – New Start)

**Audit Objective:** Determine if Real Estate and Facilities Management is the appropriate office to task with the IRS' record retention responsibilities.

### ***Real Estate and Facilities Management Contracts*** (2007 – New Start)

**Audit Objective:** Evaluate the type of services received and determine if they are of reasonable quality and cost when compared to commercially available services in the open market.

### ***Career Management Learning Centers*** (2007 – New Start)

**Audit Objective:** Determine if the IRS Business Operating Divisions and the Career Management Learning Centers are effectively and efficiently using training space and operating as intended.

### ***Restricted Interest Calculations on Estate Taxes*** (2006 – Work in Process)

**Audit Objective:** Determine whether interest on estate tax returns is being computed correctly and whether any interest is being restricted unnecessarily.

### ***Picture Them at Home*** (2006 – Work in Process)

**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.

***Impact of Customer Account Services Consolidation*** (2006 – Work in Process)

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

***1111 Constitution*** (2006 – Work in Process)

**Audit Objective:** At the request of Congress, determine if the IRS is effectively using and maintaining the Headquarters building.

DEPARTMENT OF THE TREASURY

Office of the Inspector General for Tax Administration

1125 15<sup>TH</sup> Street, NW, Room 700A  
Washington, D.C. 20005



For more information, please visit our website at:

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