



Treasury Inspector General for Tax Administration

THE TAX EXEMPT BONDS OFFICE HAS ESTABLISHED CONTROLS, BUT IMPROVEMENTS ARE NEEDED TO PREVENT IMPROPRIETIES

Issued on December 21, 2007

Highlights

Highlights of Report Number: 2008-10-052 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

Controls over examination closures are needed to provide assurance that capital raised from issuing tax-exempt bonds will be appropriately used for public works projects, and examinations are conducted with integrity and fairness. These control weaknesses that could allow employees to improperly close examinations without managers being aware of the actions. In addition, because of a lack of documentation, we could not determine if the high-risk opened-in-error disposal code was used correctly or if it was the appropriate action to take on the examination case.

WHY TIGTA DID THE AUDIT

The Director, Government Entities, requested that TIGTA determine whether actions to close tax-exempt bond examinations using an opened-in-error disposal code were appropriate. The overall objectives of this review were to determine whether closing actions for tax-exempt bond examinations open-in-error appropriately complied with Internal Revenue Service guidelines and whether security and controls over closing actions for field examinations were effective.

WHAT TIGTA FOUND

The Tax Exempt Bonds (TEB) office established some significant controls for closing examinations established on the inventory system and ensured the ability to close cases from the inventory system was limited to authorized TEB employees. For example, examiners attest that conclusions are technically correct and procedurally accurate by preparing an examination closing record and then assembling the case file according to specific guidelines. The case files, including the examination closing record, are then reviewed by supervisors. The TEB office also performs limited-scope examinations on refund claims and limits the capability to close cases from the inventory system

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to inventory coordinators.

While the TEB office established several controls, there are still two key areas without controls. Specifically, examinations that are determined to be opened-in-error can be closed without documentation of managerial approval, and key procedures that should be completed by different individuals are being performed by the same employee. Both of these control weaknesses could allow employees to improperly close examinations without managerial approval.

For example, one of the higher risk disposal codes for closing an examination is reserved for examinations that were established on the inventory system in error. Due to the high risk, Internal Revenue Service procedures require the supervisor and the Manager, Field Operations, to sign a form approving the closing action. These forms are required to be retained for 1 year; however, the TEB office did not comply with the requirement.

In addition, once an examination is complete, the TEB office is required to send closing letters to bond issuers detailing the results of examinations. It is critical that evidence of adequate separation of duties exists between the processes of working the case, approving the closing letter, and mailing the closing letter to the bond issuer and other related stakeholders. Under the existing process, supervisors are provided with the full capability to perform all of these tasks with no requirement to maintain documentation of approvals in the examination case files.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, TEB, (1) ensure the inventory coordinator does not close examinations that were opened-in-error until the form approving the closing action is received and (2) develop and implement controls to ensure the appropriate managerial approvals are obtained and documented for closing letters and refund claims.

IRS officials agreed with our recommendations. The TEB office plans to update its procedures and ensure controls are followed for approving examinations opened-in-error. In addition, the TEB office plans to ensure appropriate managerial approvals are obtained and documented for closing letters and refund claims.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200810052fr.pdf>

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