



## Treasury Inspector General for Tax Administration

### PERFORMANCE MEASURES AND IMPROVED CASE TRACKING WOULD HELP THE EXEMPT ORGANIZATIONS FUNCTION BETTER ALLOCATE RESOURCES

Issued on March 13, 2008

## Highlights

Highlights of Report Number: 2008-10-057 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

### IMPACT ON TAXPAYERS

The Exempt Organizations function has not defined goals or established an effective tracking system to measure the results of Review of Operations Unit work. As a result, management needs to perform more detailed analyses of completed casework related to recently established tax-exempt organizations. Such analyses should determine whether (1) taxpayer funds allocated to recently established organization case reviews are being used wisely, and (2) tax-exempt organizations are being contacted only when necessary.

### WHY TIGTA DID THE AUDIT

Internal Revenue Service (IRS) management has reported that abusive tax schemes involving various types of tax-exempt and government entities appear to have grown. Left unchallenged, such schemes not only undermine confidence in our voluntary compliance tax system but also can undermine support for charitable giving, a unique and important feature of our society. Congress has discussed the possibility of requiring informal filings by certain tax-exempt organizations to coincide with their fifth anniversary of being recognized as tax-exempt.

In response to these concerns, the Exempt Organizations function created the Review of Operations Unit in August 2005. One of the Unit's responsibilities is performing operational reviews of organizations to ensure they are operating in accordance with their tax-exempt purposes and are current with all filing requirements. This audit was initiated as part of the TIGTA Fiscal Year 2008 Annual Audit Plan related to the Major Management Challenge of tax compliance initiatives.

### WHAT TIGTA FOUND

The Review of Operations Unit has implemented a followup process to select a sample of organizations that

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have recently received tax-exempt status from the IRS. TIGTA sampled closed cases from these recently established organizations and concluded that the Review of Operations Unit is processing cases according to Unit procedures. IRS records show that 81 percent (525 of 650 cases closed) of these cases were closed with no change, indicating there were no potential noncompliance issues identified in its limited review.

However, TIGTA was unable to fully assess the effectiveness of the Review of Operations Unit's work for several reasons. Exempt Organizations function management has not established comprehensive performance measures for the Unit to identify specific Unit goals and assist in measuring its overall success. Also, some case results are not captured on the Review of Operations Unit database to effectively track the Unit's overall accomplishments. For example, the Unit sometimes uses the "No Change" disposal code even though productive actions were taken by the Unit (e.g., changes were made to some tax-exempt organizations' return filing requirements on an IRS database). If this type of positive impact on tax administration is not captured, IRS management could mistakenly believe more than 80 percent of the recently established tax-exempt organizations reviewed by the Review of Operations Unit are being closed without any positive actions and may decide the benefit or impact of the Unit is low. In actuality, the percentage of cases closed with a positive action may be higher.

Further, Exempt Organizations function management does not analyze the results of Unit casework related to recently established tax-exempt organizations to identify potential issues for future educational and compliance activities. By developing detailed goals for the Unit, establishing performance measures to track the Unit's progress in meeting these goals, and ensuring that accurate data are captured for analysis, the IRS will be better able to evaluate the Unit's success and ensure the proper level of resources is allocated to the Unit.

### WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Exempt Organizations, establish performance measures for the Review of Operations Unit, track all actions taken by the Unit to help measure its accomplishments, and analyze the results of recently established tax-exempt organizations casework for potential educational and compliance activities.

IRS management agreed with our recommendations and provided planned actions to address them.

### 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/200810057fr.pdf>.

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