



*Additional Steps Need to Be Completed to
Ensure the Success of the Service-wide
Non-filer Strategy*

September 22, 2008

Reference Number: 2008-30-165

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.




TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 22, 2008

**MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT**

FROM: 
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Additional Steps Need to Be Completed to Ensure
the Success of the Service-wide Non-filer Strategy
(Audit # 200830012)

This report presents the results of our review of the progress the Internal Revenue Service's (IRS) Small Business/Self-Employed Division has made in identifying non-filers¹ and determining what potential new data sources for detecting non-filers and other forms of underreporting have been investigated that could assist in that effort. This report identifies additional steps the IRS needs to take to ensure the success of its Service-wide Non-filer Strategy. This audit was included in the Treasury Inspector General for Tax Administration Fiscal Year 2008 Annual Audit Plan.

Impact on the Taxpayer

Individuals, businesses, and other taxable entities with income more than certain threshold amounts are required to file income tax returns. The timely filing of required tax returns is critical to the United States income tax system. The IRS considers non-filing to be an egregious problem because it contributes to the tax gap² and can cause compliant taxpayers to lose faith in the fairness of the tax system. Therefore, it is important that the IRS establish measurable program goals and a systemic method to track and monitor cases worked as part of the Service-wide Non-filer Strategy initiatives and explore the costs/benefits of purchasing

¹ Individual non-filers are taxpayers legally required to file, for whom returns have not been filed by the due dates or extended due dates of the returns. Business non-filers are entities that have filing requirements, for which returns have not been received by the due dates or extended due dates of the returns, and are usually 90 days past due.

² The tax gap is the difference between taxes that are legally owed and taxes that are paid on time.



Additional Steps Need to Be Completed to Ensure the Success of the Service-wide Non-filer Strategy

agreements with private external data sources as a more cost-effective approach to taxpayer outreach and education to address chronic and unknown non-filers.

Synopsis

In response to a prior Treasury Inspector General for Tax Administration audit report,³ the IRS agreed to develop a Service-wide Non-filer Strategy⁴ to coordinate and track all efforts taken to plan, control, and improve efficiency in identifying and working non-filer cases. The goal of this strategy is to ensure that IRS resources are used effectively to bring non-filers into the tax system, ensure future compliance, and reduce the portion of the \$345 billion tax gap attributable to non-filers.⁵ As part of this strategy, the IRS was to establish measurable program goals, develop an organization-wide tracking system to monitor progress, and leverage technology and research capabilities to increase the use of third-party information to identify unknown non-filers and improve non-filer case selection. In addition, the IRS was to partner with external sources to develop and implement effective outreach and education actions to reduce the number of chronic non-filers and allocate compliance resources accordingly.

The IRS should be commended for carrying out many of the steps necessary for the development of the Service-wide Non-filer Strategy. However, additional steps need to be completed if the Strategy is to be fully implemented within the time period originally planned. We found that Service-wide non-filer outcome and performance measures were not yet approved and adopted. Without measurable program goals, management will be unable to determine the effectiveness and achievements of non-filer efforts. In addition, there was no systemic method in place to track and monitor cases that are worked as part of Service-wide Non-filer Strategy Initiatives. Without such a tracking system, results cannot be captured and used for future planning, and cost benefit analyses cannot be performed.

During our review, we tried to identify any potential new/external data sources that were being used (or were planned to be used) by the IRS for taxpayer outreach and education as part of the Service-wide Non-filer Strategy to address chronic and unknown non-filers. While IRS management pointed to the use of external data obtained from the State Reverse File Match Initiative⁶ and other State-provided data⁷ as examples of their use of third-party data to identify

³ *The Internal Revenue Service Needs a Coordinated National Strategy to Better Address an Estimated \$30 Billion Tax Gap Due to Non-filers* (Reference Number 2006-30-006, dated November 2005).

⁴ The Small Business/Self-Employed Division was given responsibility for development, coordination, and oversight of the strategy.

⁵ Individual non-filers accounted for approximately \$30 billion of the estimated \$345 billion tax gap in Tax Year 2001. The portion of the tax gap attributed to business non-filers is unknown.

⁶ The State Reverse File Match Initiative involves the use of State return tax information to identify Federal return non-filers.

⁷ One example would be the State of California Franchise Tax Board.



Additional Steps Need to Be Completed to Ensure the Success of the Service-wide Non-filer Strategy

non-filers, the initiatives appear to be limited in scope. The IRS does not currently participate in any purchasing agreements with private external data sources.⁸ The use of such agreements might result in a more targeted, cohesive approach to taxpayer outreach and education, while helping the IRS achieve its mission.

Recommendations

We recommended that the Deputy Commissioner for Services and Enforcement 1) establish Service-wide Non-filer Strategy outcome and performance measures, 2) develop a Service-wide systemic method to track and monitor cases selected to be worked as part of non-filer initiatives, and 3) explore the costs/benefits of purchasing agreements with private external data sources and determine whether such contracts could result in a more cost-effective approach to taxpayer outreach and education as part of the Service-wide Non-filer Strategy to address chronic and unknown non-filers.

Response

IRS management agreed with all of the recommendations. The IRS has developed outcome and performance measures. In addition, IRS management will assess whether current systems can be enhanced to track, monitor, and capture results for cases that are worked as part of the Service-wide Non-filer Strategy Initiatives and, if not feasible, will determine the cost for developing an enterprise system. The IRS also agreed to explore which private data sources would enhance available internal research and determine the costs/benefits of using these private data sources. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-8510.

⁸ For example, direct mail data providers and information resellers.



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

Table of Contents

Background	Page 1
Results of Review	Page 3
Service-wide Non-filer Outcome and Performance Measures Have Not Been Adopted	Page 3
<u>Recommendation 1:</u>	Page 4
A Systemic Method to Track and Monitor Cases That Are Part of Service-wide Non-filer Strategy Initiatives Is Not in Place	Page 4
<u>Recommendation 2:</u>	Page 5
The Internal Revenue Service Should Explore the Use of New Data Sources for Taxpayer Outreach and Education	Page 6
<u>Recommendation 3:</u>	Page 8
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 9
Appendix II – Major Contributors to This Report	Page 11
Appendix III – Report Distribution List	Page 12
Appendix IV- Management’s Response to the Draft Report	Page 13



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

Abbreviations

BMF	Business Master File
IRS	Internal Revenue Service
NFEAC	Non-filer Executive Advisory Council
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration



Additional Steps Need to Be Completed to Ensure the Success of the Service-wide Non-Filer Strategy

Background

After the reorganization of the Internal Revenue Service (IRS) in 2002, management was left with no formal system in place for coordinating and tracking the various non-filer¹ actions taking place across all IRS divisions.

The Treasury Inspector General for Tax Administration (TIGTA) issued a report,² which pointed out that the IRS needed a coordinated Service-wide Non-filer Strategy in order to increase voluntary compliance, reduce the tax gap,³ and ensure that resources were being used effectively to bring non-filers into the tax system.

The goal of the IRS Service-wide Non-filer Strategy is to ensure that IRS resources are used effectively to bring non-filers into the tax system, ensure future compliance, and reduce the portion of the \$345 billion tax gap attributable to non-filers.

IRS management accepted the report's recommendations and agreed to develop a Service-wide Non-filer Strategy to coordinate and track all efforts taken to plan, control, and improve efficiency in identifying and working non-filer cases. The goal of this strategy is to ensure that IRS resources are used effectively to bring non-filers into the tax system, ensure future compliance, and reduce the portion of the \$345 billion tax gap attributable to non-filers.⁴ As part of this strategy, the IRS was to establish measurable program goals,⁵ develop an organization-wide tracking system to monitor progress, and leverage technology and research capabilities to increase the use of third-party information to identify unknown non-filers and improve non-filer case selection. In addition, the IRS was to partner with external sources to develop and implement effective outreach and education actions to reduce the number of chronic non-filers and allocate compliance resources accordingly.

This review was performed at the IRS Brookhaven Campus⁶ in Holtsville, New York, and the IRS National Headquarters in Washington, D.C., and included interviews and discussions with various IRS management and staff affiliated with the Service-wide Non-filer Strategy during the

¹ Individual non-filers are taxpayers legally required to file, for whom returns have not been filed by the due dates or extended due dates of the returns. Business non-filers are entities that have filing requirements, for which returns have not been received by the due dates or extended due dates of the returns, and are usually 90 days past due.

² *The Internal Revenue Service Needs a Coordinated National Strategy to Better Address an Estimated \$30 Billion Tax Gap Due to Non-filers* (Reference Number 2006-30-006, dated November 2005).

³ The tax gap is the difference between taxes that are legally owed and taxes that are paid on time.

⁴ Individual non-filers accounted for approximately \$30 billion of the estimated \$345 billion tax gap in Tax Year 2001. The portion of the tax gap attributed to business non-filers is unknown.

⁵ For example, number of returns secured from non-filers, total payments received, recidivism (repeater) rate, etc.

⁶ The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

period November 2007 through June 2008.⁷ We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The scope of our work was limited because Service-wide Non-filer outcome and performance measures were not established, and there was no systemic Service-wide tracking method in place to monitor non-filer cases by the end of our field work. Therefore, we could not make a determination as to the effectiveness or potential effectiveness of any current or future non-filer initiatives. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁷ The members of management and staff contacted during this review included individuals from Small Business/Self-Employed Division Research, Campus Compliance Services, Planning and Performance Management, and Collection functions, Criminal Investigation Division, and the Office of Chief Counsel.



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

Results of Review

Service-wide Non-filer Outcome and Performance Measures Have Not Been Adopted

Although the Service-wide non-filer outcome and performance measures were scheduled to be in place for Fiscal Year 2008, the IRS Enforcement Committee had not approved and adopted such measures as of May 2008. Without the establishment of Service-wide non-filer outcome and performance measures, program goals cannot be set and the effectiveness or potential effectiveness of Service-wide non-filer initiatives cannot be assessed.

The IRS Enforcement Committee must approve and adopt Service-wide non-filer outcome and performance measures

The IRS Enforcement Committee⁸ governs the Service-wide Non-filer Strategy, which is an effort involving all of the Service's operating divisions. The Enforcement Committee chartered a Service-wide Non-filer Executive Advisory Council (NFEAC), which consists of representatives from all IRS divisions and serves as a principal advisory board to the Enforcement Committee. The NFEAC reports to the Enforcement Committee and is responsible for developing, monitoring, and measuring the effectiveness of the Service-wide Non-filer Strategy across all IRS divisions. The Enforcement Committee must approve and adopt any Service-wide non-filer outcome and performance measures submitted to them by the NFEAC before such measures can be implemented.

The Enforcement Committee and the NFEAC should be commended for carrying out many of the steps necessary for the development of the Service-wide Non-filer Strategy. However, the Enforcement Committee needs to establish Service-wide non-filer outcome and performance measures so that measurable program goals⁹ can be set for the Service-wide Non-filer Strategy initiatives and to ensure that the strategy can be fully implemented by the Fiscal Year 2009 deadline. Without outcome and performance measures and measurable program goals, management is unable to determine whether efforts to improve program efficiency and effectiveness are achieving desired results and whether IRS resources are being used in the most effective and efficient manner to bring non-filers into the tax system, ensure future compliance, and reduce the tax gap.

⁸ The IRS Enforcement Committee is chaired by the Deputy Commissioner for Services and Enforcement.

⁹ For example, the prior TIGTA report suggested that such measurable goals could be the number of returns secured from non-filers, total payments received, and the recidivism (repeater) rate of non-filers.



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

The Government Performance and Results Act of 1993¹⁰ requires that plans have outcome-related goals and objectives

The Government Performance and Results Act requires that plans have general goals and objectives, including outcome-related goals and objectives. It also requires a description of how the goals and objectives will be achieved, skills and technology required, and human capital information and other resources required. The establishment of Service-wide outcome and performance measures for the Non-filer Strategy is necessary for the IRS to be in compliance with Government Performance and Results Act requirements.

Recommendation

Recommendation 1: To ensure that IRS resources are being used in the most effective and efficient manner to bring non-filers into the tax system and achieve full implementation of the Service-wide Non-filer Strategy in all operating divisions by Fiscal Year 2009, the Deputy Commissioner for Services and Enforcement should establish Service-wide non-filer outcome and performance measures so that program goals can be set.

Management's Response: IRS management agreed with the recommendation and has developed outcome and performance measures.

A Systemic Method to Track and Monitor Cases That Are Part of Service-wide Non-filer Strategy Initiatives Is Not in Place

As of May 2008, there was no systemic method in place to track and monitor cases that are worked as part of Service-wide Non-filer Strategy Initiatives. Without such a tracking system, results cannot be captured and used for future planning, and cost benefit analyses cannot be performed.

In an earlier TIGTA report,¹¹ the IRS was advised to develop a Service-wide tracking system to ensure effective coordination, monitoring, and successful completion of each business division's Non-filer Strategy objectives. Management agreed that they did not have a formal system in place to monitor the progress of each business division's Non-filer Strategy action items or changes to each business division's non-filer plans. The Collection Governance Council, under the auspices of the NFEAC, developed a cross-functional action plan that included names of responsible individuals and the status of action items with respect to the development of the Service-wide Non-filer Strategy.

¹⁰ Pub. L. No. 103-62, 107 Stat 285 (codified as amended in scattered section of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

¹¹ *The Internal Revenue Service Needs a Coordinated National Strategy to Better Address an Estimated \$30 Billion Tax Gap Due to Non-filers* (Reference Number 2006-30-006, dated November 2005).



Additional Steps Need to Be Completed to Ensure the Success of the Service-wide Non-Filer Strategy

However, while such an action plan offers details with respect to the development and implementation of the Non-filer Strategy, it does not provide for a systemic means to capture the results of actual cases that are selected as part of the different Service-wide Non-filer Initiatives. We could not obtain any information on whether management planned to systemically identify, track, and monitor such cases on a Service-wide level and who would be responsible for ensuring that such a method was developed and implemented. Moreover, documents obtained during this review did not clarify this issue.

Effective internal controls require the performance measurement of ongoing program accomplishments

Under the Government Performance and Results Act, performance measurement is defined as the ongoing monitoring and reporting of program accomplishments. In order to ascertain a program's accomplishments, and to accurately measure the results of the Service-wide Non-filer Strategy Initiatives, the IRS needs a systemic means by which they can track and monitor cases that are worked as part of non-filer initiatives. The results can be fed into a Service-wide non-filer measurement system that would provide an individual and aggregate measure of the effectiveness of IRS programs undertaken to improve the voluntary compliance levels of non-filers across the business divisions.

The development of such a systemic tracking and monitoring method would also be consistent with Office of Management and Budget Circular A-123¹² requirements for effective internal controls to ensure that programs operate and resources are used efficiently and effectively to achieve desired objectives.

Recommendation

Recommendation 2: To ensure that the IRS can track, monitor, and capture results for cases that are worked as part of Service-wide Non-filer Strategy Initiatives and enable management to determine whether resources are being used in the most effective and efficient manner to bring non-filers into the tax system, we recommend that the Deputy Commissioner for Services and Enforcement develop a systemic method to track and monitor such cases.

Management's Response: IRS management agreed with this recommendation. The Director, Collection, Small Business/Self-Employed (SB/SE) Division, will assess whether current systems can be enhanced and, if not feasible, will determine the cost for developing an enterprise system.

¹² Circular A-123, *Management's Responsibility for Internal Control* (revised December 2004).



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

The Internal Revenue Service Should Explore the Use of New Data Sources for Taxpayer Outreach and Education

According to the Service-wide Non-filer Strategy Vision Statement, the IRS plans to leverage technology and research capabilities to increase the use of third-party information to identify unknown non-filers and improve non-filer case selection and resolution. In addition, the IRS plans to partner with external sources to develop and implement effective outreach and education actions to reduce the number of chronic non-filers and allocate compliance resources accordingly. The IRS does not currently participate in any purchasing agreements with private external data sources.¹³ As part of the Service-wide Non-filer Strategy, the IRS should explore the costs/benefits of participating in purchase agreements with private external data sources¹⁴ and determine whether such contracts would result in a more targeted and cohesive approach to taxpayer outreach and education, while also helping the IRS to achieve its mission.

The term “non-filers” was defined as part of the Service-wide Non-filer Strategy

Section 6012 of the Internal Revenue Code¹⁵ requires individuals, businesses, and other taxable entities with income above certain threshold amounts to file income tax returns. The filing of required tax returns in a timely manner is critical to the United States’ system of voluntary compliance. The IRS considers non-filing to be an egregious problem because it contributes to the tax gap and can cause compliant taxpayers to lose faith in the fairness of the tax system.

One of the first challenges facing IRS management when they began to develop a Service-wide Non-filer Strategy was to define the term “non-filer,” and then further divide taxpayers falling under the definition into sub-categories. For purposes of the Service-wide Non-filer Strategy, individual non-filers were defined as individuals who were legally required to file and for whom returns had not been filed by the due dates of the returns or extended due dates.¹⁶

The IRS identifies individual non-filers by using historical filing information and third-party data. For example, the IRS requires employers, financial institutions, and other business entities to submit income and various other types of tax-related information. Individual non-filers are identified when third-party data for a tax year cannot be matched with a return for that year. In March 2005, the IRS reported that individual non-filers accounted for an estimated \$30 billion of the total tax gap for Tax Year 2001.¹⁷

¹³ For example, direct mail data providers and information resellers.

¹⁴ Address information is currently purchased by the IRS Collection function through a contract with ACCURINT.

¹⁵ I.R.C. Section 6012 (2004).

¹⁶ Sub-categories of individual non-filers include repeat non-filers, high-income non-filers, underreporters, and underpayers.

¹⁷ This study, conducted by the IRS National Headquarters Office of Research, Analysis, and Statistics released in March 2005, provided numbers estimated for Tax Year 2001. The estimated \$30 billion non-filer tax gap consisted of \$28 billion for individual income tax non-filing and \$2 billion associated with estate and gift taxes.



Additional Steps Need to Be Completed to Ensure the Success of the Service-wide Non-Filer Strategy

Business non-filers are defined as entities that have filing requirements and for which returns have not been received by the due dates of the returns or extended due dates and are usually 90 days past due. The IRS has traditionally applied resources to work “not liable to file” and “no longer liable to file” delinquency case resolutions, rather than potentially more productive cases. This occurred as a consequence of not using third-party information reporting data in Business Master File (BMF)¹⁸ non-filer case creation and selection. As a result, the IRS is unable to determine the amount of the tax gap attributable to business non-filers.

To rectify this situation, the IRS plans to use a BMF Case Creation Non-filer Identification Process as part of the Service-wide Non-filer Strategy dealing with business taxpayers in the latter part of Fiscal Year 2008. The BMF Case Creation Non-filer Identification Process will use third-party data (i.e., Information Returns Master File Processing,¹⁹ Payer Master File,²⁰ and Combined Annual Wage Reporting²¹), along with account data, to prioritize BMF and Employee Plans Master File²² return delinquencies. Management views the BMF Case Creation Non-filer Identification Process as a tool that will assist in the creation and more effective selection of BMF non-filer inventory and lead to a more effective allocation of compliance resources. Although referred to as “third-party” data, the data that will be used in the BMF Case Creation Non-filer Identification Process are considered by IRS management to be derived from “internal” data sources.

Data can be purchased from external sources for taxpayer outreach and education purposes

During our review, we tried to identify any potential new/external data sources that the IRS was using (or planning to use) for taxpayer outreach and education as part of the Service-wide Non-filer Strategy to address chronic and unknown non-filers. While IRS management pointed to the use of external data obtained through the State Reverse File Match Initiative²³ and other State-provided data²⁴ as examples of their use of third-party data to identify non-filers, the

¹⁸ 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.

¹⁹ The database containing all information returns transcribed by the IRS. It contains data about both the payer (filer) as well as data about the payee (recipient of income) from various sources.

²⁰ The IRS database that consists of a list of business and individual entities filing Form 1099 (this is the information return series of tax forms). The file also contains information for each payer on penalties proposed and assessed.

²¹ This is a document matching program that compares the Employee Wage Information reported by the employer to the IRS and to the Social Security Administration.

²² This is a Master File maintained at the Martinsburg Computing Center. This file consists of various types of tax sheltered Pension/Profit Sharing Plans.

²³ The State Reverse File Match Initiative involves the use of State return tax information to identify Federal return non-filers.

²⁴ These were partnering agreements between the IRS and State agencies (at no cost to the IRS) (e.g., the State of California Franchise Tax Board).



Additional Steps Need to Be Completed to Ensure the Success of the Service-wide Non-Filer Strategy

initiatives were limited in scope and without cost/benefit analyses supporting the selection of initiatives or reasons why such initiatives would be the best use of limited IRS resources.

During this review, the IRS Office of Chief Counsel stated that the IRS can purchase information from a private company's database for taxpayer outreach and education purposes, as long as the information sought is found to be necessary to the mission of the Agency. Such data can be purchased using appropriated funds under the necessary expense doctrine and following all applicable rules and regulations.

Although many Federal Government agencies²⁵ participate in purchasing agreements with private external data sources,²⁶ IRS management stated that they do not currently use, or plan to use, data purchased from such agreements as part of the Service-wide Non-filer Strategy. However, we believe that the IRS should explore the costs/benefits of purchasing agreements with private external data sources and determine whether such contracts would result in a more targeted and cohesive approach to taxpayer outreach and education, while also helping the IRS to achieve its mission.

Recommendation

Recommendation 3: To ensure that resources are used in the most effective and efficient manner to conduct taxpayer outreach and education and to achieve the mission of the IRS, we recommend that the Deputy Commissioner for Services and Enforcement explore the costs/benefits of the IRS' participation in purchasing agreements with private data sources and determine whether such arrangements could result in a more cost-effective approach to taxpayer outreach and education as part of the Service-wide Non-filer Strategy to address chronic and unknown non-filers.

Management's Response: IRS management agreed with this recommendation. The Director, Collection, SB/SE Division, will explore which private data sources would enhance the IRS' available internal research and determine the costs/benefits of using these private data sources.

²⁵ The Federal Bureau of Investigation, the Drug Enforcement Agency, the Department of Homeland Security, Immigration and Customs Enforcement, U.S. Customs and Border Protection, Federal Emergency Management Agency, Transportation Security Administration, the Department of State, and the Social Security Administration participate in contracts with information resellers.

²⁶ The term "information resellers" refers to private businesses that vary in many ways but have in common collecting and aggregating personal and business-related information from multiple sources and making it available to their customers. Information resellers have amassed an extensive amount of such information and supply it to customers in both the Government and the private sector.



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to evaluate the progress the SB/SE Division has made in identifying non-filers¹ and determining what potential new data sources for detecting non-filers and other forms of underreporting have been investigated that could assist in that effort.

The scope of our work was limited because Service-wide non-filer outcome and performance measures were not established, and there was no systemic Service-wide tracking method in place to monitor non-filer cases by the end of our field work.

To accomplish our objective, we:

- I. Determined if management could ascertain the effectiveness or potential effectiveness of the current SB/SE Division projects in identifying non-filers.
 - A. Attempted to identify the potential numbers of non-filer cases and the dollars involved that were detected through the various non-filer projects.
 1. Contacted the management and staff to obtain information on their non-filer projects.
 2. Conducted interviews with SB/SE Division management and analysts to determine how the non-filer information identified through their projects was used (or will be used) and if measurable results were achieved.
 3. Conducted interviews with SB/SE Division management and analysts to determine if non-filer information identified through their projects was not used and determined why; e.g, lack of resources to work cases, low-risk, etc.
 - B. Determined if the SB/SE Division could point to any measurable decline in the number of non-filers due to actions taken by the IRS based on their non-filer projects.
 1. Conducted interviews with SB/SE Division management and analysts to obtain information and documentation of the effectiveness of the non-filer projects.
 2. Determined how the SB/SE Division tracks and measures project results.
 3. Researched IRS, Government Accountability Office, and TIGTA reports to identify any findings/recommendations made with respect to non-filers.

¹ Individual non-filers are taxpayers legally required to file, for whom returns have not been filed by the due dates or extended due dates of the returns. Business non-filers are entities that have filing requirements, for which returns have not been received by the due dates or extended due dates of the returns, and are usually 90 days past due.



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

- II. Determined what potential new data sources for identifying non-filers have been investigated and the likelihood of their use in the SB/SE Division's Non-filer Strategy.
 - A. Held discussions with SB/SE Division management and analysts to obtain information regarding new data sources and their potential for identifying non-filers.
 - B. Conducted interviews with SB/SE Division Research function staff to obtain information regarding new data sources and their potential uses to identify non-filers.
 - C. Determined if any of the individuals in Steps II.A. and II.B. had concerns regarding the use of these new data sources by the IRS to identify non-filers (e.g, not cost effective, not reliable).



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

Appendix II

Major Contributors to This Report

Margaret E. Begg, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs)

Kyle R. Andersen, Director

Bernard Kelly, Audit Manager

Kathleen McFadden, Lead Auditor

Paul R. Baker, Senior Auditor

Margaret Filippelli, Senior Auditor



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Assistant Deputy Commissioner for Services and Enforcement SE
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Wage and Investment Division SE:W
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Examination, Small Business/Self-Employed Division SE:S:E
Director, Collection Policy, Small Business/Self-Employed Division SE:S:C:CP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Deputy Commissioner for Services and Enforcement SE
 Commissioner, Small Business/Self-Employed Division SE:S
 Commissioner, Wage and Investment Division SE:W



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

Appendix IV

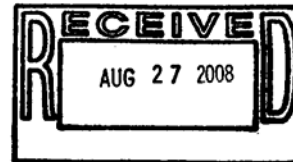
Management's Response to the Draft Report




COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 26, 2008



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:  Christopher Wagner
Acting Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Additional Steps Need to Be Completed to
Ensure the Success of the Service-wide Non-filer Strategy
(Audit No. 200830012)

Thank you for the opportunity to review the draft report entitled, "Additional Steps Need to Be Completed to Ensure the Success of the Service-wide Non-filer Strategy." We are pleased the report acknowledges the steps we have taken to develop the Servicewide Non-filer Strategy.

We agree with the three recommendations included in the report and anticipate they will facilitate the strategy's implementation. Since your review, we have developed the servicewide non-filer outcome and performance measures, which will be used during FY 2009. We will also take corrective actions to address the two remaining recommendations.

Attached is a detailed response outlining our corrective actions. If you have any questions, please call me at (202) 622-0600 or Fred Schindler, Director Collection Policy, Small Business/Self-Employed Division, at (202) 283-7650.

Attachment



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

Attachment

RECOMMENDATION 1:

To ensure that IRS resources are being used in the most effective and efficient manner to bring non-filers into the tax system and achieve full implementation of the Service-wide Non-filer Strategy in all operating divisions by FY 2009, the Deputy Commissioner for Services and Enforcement should establish Service-wide non-filer outcome and performance measures so that program goals can be set.

CORRECTIVE ACTIONS:

We agree with this recommendation. We have developed outcome and performance measures.

IMPLEMENTATION DATE:

Completed

RESPONSIBLE OFFICIAL:

N/A

CORRECTIVE ACTION(S) MONITORING PLAN:

The Director, Collection Policy, SB/SE will advise the Director, Collection, SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 2:

To ensure that the IRS can track, monitor, and capture results for cases that are worked as part of Service-wide Non-filer Strategy Initiatives and enable management to determine whether resources are being used in the most effective and efficient manner to bring non-filers into the tax system, we recommend that the Deputy Commissioner for Services and Enforcement develop a systemic method to track and monitor such cases.

CORRECTIVE ACTIONS:

We agree with this recommendation. The Director, Collection, SB/SE will assess whether current systems can be enhanced and, if not feasible, will determine the cost for developing an enterprise system.

IMPLEMENTATION DATE:

June 30, 2009

RESPONSIBLE OFFICIAL:

Director, Collection, Small Business/Self-Employed Division

CORRECTIVE ACTION(S) MONITORING PLAN:

The Director, Collection Policy, SB/SE will advise the Director, Collection, SB/SE of any delays in implementing this corrective action.



*Additional Steps Need to Be Completed to Ensure the Success of
the Service-wide Non-Filer Strategy*

RECOMMENDATION 3:

To ensure that resources are used in the most effective and efficient manner to conduct taxpayer outreach and education and to achieve the mission of the IRS, we recommend that the Deputy Commissioner for Services and Enforcement explore the costs/benefits of the IRS' participation in purchasing agreements with private data sources and determine whether such arrangements could result in a more cost effective approach to taxpayer outreach and education as part of the Service-wide Non-filer Strategy to address chronic and unknown non-filers.

CORRECTIVE ACTIONS:

We agree with this recommendation. The Director, Collection, SB/SE will explore which private data sources would enhance our available internal research and determine the costs/benefits.

IMPLEMENTATION DATE:

October 15, 2009

RESPONSIBLE OFFICIAL:

Director, Collection, Small Business/Self-Employed Division

CORRECTIVE ACTION(S) MONITORING PLAN:

The Director, Collection Policy, SB/SE will advise the Director, Collection, SB/SE of any delays in implementing this corrective action.