

Department of the Treasury



*Treasury Inspector  
General for Tax  
Administration*

**OFFICE OF AUDIT  
FISCAL YEAR 2003  
ANNUAL AUDIT PLAN**

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## ***Fiscal Year 2003 Annual Audit Plan***

### ***MESSAGE FROM THE ACTING INSPECTOR GENERAL***

Established in 1999, the Treasury Inspector General for Tax Administration's (TIGTA) Office of Audit is responsible for evaluating the Internal Revenue Service's (IRS) programs. The Office of Audit's Fiscal Year (FY) 2003 Annual Audit Plan presents an audit program that will assess areas related to the IRS' systems modernization efforts, the major challenges facing the IRS, and the IRS' strategic goals and objectives. In addition, the Office of Audit will perform audits required by statute, as well as address areas of concern to the Congress, the IRS Oversight Board, and other interested parties.

After the September 11, 2001, terrorist attacks and subsequent anthrax mail threats, the IRS implemented new security procedures. In addition, a number of systems security measures were successfully implemented, but these measures are not sufficient to assure that the IRS' systems and computer data are protected. Systems Modernization also deployed some systems in FY 2002; however, these successes were achieved at great costs and other modernization projects remain at risk. Existing systems also continue to be vulnerable as the Business Systems Modernization Office (BSMO) tries to move the IRS' computer systems into the 21<sup>st</sup> century and while returns processing is carried on as usual.

Despite producing combined financial statements covering its tax custodial and administrative activities and achieving an unqualified opinion from the General Accounting Office (GAO), the IRS' financial systems remain at risk. The absence of effective systems and controls means that the IRS lacks, on an ongoing basis, the timely, accurate, and useful information needed to make informed management decisions. In addition, other audits have identified Government Performance and Results Act of 1993 (GPRA)<sup>1</sup> issues that could be improved.

The four operating divisions—Wage and Investment Income (W&I), Small Business/Self-Employed (SB/SE), Large and Mid-Size Business (LMSB), and Tax Exempt and Government Entities (TE/GE)—focus primarily on helping taxpayers understand the tax laws, processing tax returns and refunds, and enforcing compliance with the tax laws. Overall, the Tax Year 2001 filing season was very successful; however, the Office of Audit identified some areas that could be improved. For example, walk-in and telephone assistance provided inconsistent service, some new tax laws were not properly implemented, and refund checks remained undelivered despite new addresses on file.

Compliance, too, remains a problem as balance due accounts have increased over the last few years. Meanwhile the number of W&I examinations has decreased, and TIGTA

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<sup>1</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.).

reviews identified incorrect assessments on Earned Income Credit (EIC) claims. The SB/SE Division continues to re-engineer its collection and examination practices; and while Collection results have stabilized, the Examination Program is still in decline. The LMSB Division is also experiencing some difficulties, particularly in industry specialization, abusive tax shelters, and other specialty programs. Recent news items have also focused attention on problems in employee plans and exempt organizations, and the IRS will need to address some of these problems. In addition, the IRS is not in full compliance with all of the statutory requirements of the IRS Restructuring and Reform Act of 1998 (RRA 98).<sup>2</sup>

The Agency-Wide Shared Services (AWSS) function will need to concentrate on some areas that the recent terrorist attacks highlighted, including security and space issues. In addition, the AWSS function is responsible for coordinating other matters that are of concern to the Oversight Board, the Congress, or IRS management, such as human capital issues, records retention, procurement, union activities, etc.

The Office of Audit is committed to ensuring that it meets the TIGTA's strategic goal of improving the efficiency and effectiveness of tax administration by focusing its audit program and resources on the fundamental goals related to the IRS' mission to administer its programs. To achieve this goal, the majority of the Office of Audit program focuses on the major management challenges facing the IRS and the IRS' progress in achieving its strategic goals. Emphasis is also placed on the statutory coverage imposed by the RRA 98, as well as areas of concern to the Congress and the IRS Commissioner.

More information on specific IRS programs and the Office of Audit's FY 2003 coverage of those programs are included in the section entitled Office of Audit's Program Areas.



Pamela J. Gardiner  
Acting Inspector General

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<sup>2</sup> Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

## ***THE MISSION AND THE ORGANIZATION***

The RRA 98 established the TIGTA with the powers and authorities given to other Inspector General organizations under the Inspector General Act, with its focus devoted entirely to the IRS. This authority charges the TIGTA 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 and the IRS Oversight Board, and to the Congress and the public.

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

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

The AIGAs advise the DIGA on the major risks facing the IRS in their respective program areas, and annually propose a national audit plan based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses. In addition, to keep apprised of operating conditions and opportunities to provide consultant and advisory services on areas of potential management improvement, the AIGAs maintain liaison and working contact with applicable IRS executives, the Treasury and GAO officials, and Congressional staffs.

## **AUDIT PROGRAM FOR FISCAL YEAR 2003**

The Annual Audit Plan communicates the TIGTA's audit priorities to the IRS, the Congress, and other interested parties. Many of the activities described in the Annual Audit Plan address the fundamental goals related to the IRS' mission to administer its programs effectively and efficiently.

The Office of Audit's FY 2003 Annual Audit Plan is organized around the IRS' core business activities. Emphasis is placed on the mandatory coverage imposed by the RRA 98 and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, financial statement audits, and Taxpayer Assistance Centers (TAC). The restructured organization of each IRS business unit, as well as the IRS' new and revamped computer systems, will be closely monitored to identify problems in implementing important programs and improving customer service.

The balance of the Office of Audit's body of work will focus on major management issues facing the IRS and the IRS' progress in achieving its strategic goals, as well as areas of concern to the Congress, the IRS Commissioner, and the IRS Oversight Board. A listing of the TIGTA's identification of the major management challenges facing the IRS in FY 2003 is included as Appendix II. The IRS' goals, and the strategies for attaining those goals, are highlighted in Appendix III. The Office of Audit's planned FY 2003 audits have been related to the management challenges and the IRS' major strategies. The graphs in Appendices IV and V illustrate the challenges and strategies that the audits will address in FY 2003. Appendix VI shows the resources planned for statutory versus discretionary audits.

The Office of Audit's FY 2003 discretionary audit coverage was identified through a comprehensive, high-level risk assessment process designed to prioritize workload by focusing on the areas of greatest risk to the IRS. The risk assessment process is used to integrate professional judgment into assessing the probability that adverse conditions or events may occur. This process applies risk factors to key auditable areas in the IRS, and documents and summarizes results to aid Office of Audit management in selecting areas for coverage. Risk factors are the criteria used to identify the relative significance of, and the likelihood that, conditions or events may occur that adversely affect the organization. Some of the risk factors used in evaluating the risks associated with the IRS' auditable areas are: stakeholder concerns, impact of new programs and tax legislation, reliability of internal control systems, and past audit reviews.

In choosing areas for coverage, the Office of Audit management primarily focuses on the areas with the highest risk. Input from TIGTA executives and top-level IRS management, current workload, and other factors are considered before a final decision is made.

**OFFICE OF AUDIT'S PROGRAM AREAS**

The following narratives briefly describe the state of some of the IRS' major programs and the Office of Audit's FY 2003 Audit Program that will further assess those programs.

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**Information Systems Programs**

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The IRS' goal of providing high-quality, efficient, and responsive information services to its operating divisions is heavily dependent on modernizing 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.

Modernizing technology has been an ongoing challenge for the IRS, and will continue for years to come. The current Business System Modernization (BSM) effort began in 1999 and, through FY 2002, the IRS will have spent nearly \$1 billion. The IRS expects to receive another \$436 million in funding for FY 2003. Progress has been disappointingly slow, but some projects, including improved telephone capacity, intelligent call routing, and refund information on the Internet, were deployed in FY 2002. These projects were, however, substantially over costs, were delayed an average of 12 months, and delivered less functionality than originally planned. TIGTA audits showed that BSM is still struggling with contracting processes, and BSM project teams do not consistently follow the defined key development processes.

Other TIGTA audits also reported some progress by the BSMO. For example, the Enterprise Architecture has been updated; an Integrated Master Schedule to help sequence projects and identify dependencies between projects has been developed; an annual funding process has been stabilized; most key development processes in the Enterprise Life Cycle have been defined; private industry experts have been hired to manage BSM; and the role of the PRIME contractor has been clarified. Despite these successes, BSM remains at risk. Continued delays, failure to provide anticipated benefits, and cost overruns could cause the Congress to withhold funds. Too many ongoing projects and the increasing complexity of BSM could exceed the BSMO's capacity for oversight.

In addition to systems modernization efforts, management of the IRS' current information systems continues to be of major concern. The IRS' Enterprise Architecture specifies the computer systems on which IRS systems are to be hosted. Procurement of noncompliant hardware and software defeats the purpose of having an architecture and may even increase the purchase, development, and maintenance costs. A new organization, End User Equipment and Services Organization, is responsible for maintaining and operating the local area networks plus related hardware and software. Staff use and effectiveness may suffer as this new, revamped organization, previously

called the Helpdesk, Desktop Management Organization, and Customer Care Division, evolves. The IRS is also planning to administer software updates and helpdesks remotely by using the Tivoli software product. Implementation problems with the new, complex software could jeopardize the IRS' ability to manage software and hardware.

In addition, business continuity, disaster recovery, asset management, and stored data became key concerns after the events of September 11, 2001. Loss of tax processing systems (e.g., the Master File, the Integrated Data Retrieval System, etc.) for extended periods would have a major economic impact and would result in lost productivity for many IRS functions that are totally dependent on these systems. The Disaster Recovery Plans define the resources, actions, tasks, and data required to manage the business recovery process in the event of a business interruption and are generally geared toward restoring the required computer systems. The IRS has now identified 18 of the most critical business processes, plus 6 administrative resumption processes, and plans to have a complete business resumption plan by the end of FY 2002. Recent TIGTA reviews have identified inaccurate and incomplete information on the Information Technology Asset Management System. The IRS has approximately 7,200 disk drives, 3,500 tape drives, and 64 mainframe computer automated tape libraries. Although storage costs have dropped, costs to manage the stored data have risen, and most organizations are spending between 20 and 40 percent of their Information Technology budgets on storage. Storage management issues can also affect system performance and response time.

The security of the IRS' information systems has been reported as a material weakness for many years. Due to the terrorist attacks and Internet access, this concern is even more realistic. The TIGTA's assessment of the security of IRS systems during FYs 2001 and 2002 revealed that overall security was not adequate because of a lack of responsibility and awareness. In addition, employees with key security responsibilities had not been adequately trained and many systems had not been properly certified. Internet gateways were vulnerable to persistent hackers. Additionally, password controls were inadequate and activity logs, configuration changes, and audit trails were not maintained.

Recent TIGTA reviews, however, have noted some improvements. For example, virus protection has improved, management expertise has increased, and an Intrusion Detection System is being installed. Still, during TIGTA tests, 70 percent of the employees quizzed improperly revealed passwords. In addition, only 39 percent of the systems that process taxpayer data and other sensitive information have been certified.

Thus, the IRS will continue to face risks throughout the life of its technology modernization projects, and TIGTA will continue to assess the IRS' efforts at managing those risks. The TIGTA will also review the IRS' computer security efforts that deal with detection and prevention activities. Overall, the FY 2003 work planned in the Information Systems Programs Unit will position the TIGTA to meet the RRA 98 requirement for reporting annually on the adequacy and security of IRS technology. A complete list of the Unit's planned audits and audit objectives is included in Appendix VII.



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## Headquarters Operations and Exempt Organizations Programs

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The TIGTA's Office of Audit Headquarters Operations and Exempt Organizations Programs Unit evaluates several IRS programs, including Financial Management and Operations, the GPRA, the Criminal Investigation (CI) function, Tax Administration, TE/GE Division, and the AWSS function.

Improving government performance is an overall goal of the current Administration. Both the President and the Secretary of the Treasury have also expressed concern about the financial management of Government agencies and believe that a clean financial audit is a basic prescription for any well-managed organization. Without accurate and timely financial information, it is not possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

The IRS' financial management systems remain a challenge to the IRS management, despite producing, for the second consecutive year, combined financial statements covering the IRS' tax custodial and administrative activities, and achieving an unqualified or "clean" audit opinion from the GAO on all financial statements for FY 2001. According to the FY 2001 GAO audit report, the IRS continues to face most of the pervasive systems and internal control weaknesses that have been reported each year since GAO began auditing the IRS' financial statements in FY 1992.

Furthermore, the IRS' approach to obtain this unqualified opinion relied heavily on costly, time-consuming processes; statistical projections; external contractors; substantial adjustments; and monumental human efforts that extended well after the September 30, 2001, fiscal year end. These costly efforts would not have been necessary if the IRS' systems and controls operated effectively. In addition, the absence of effective systems and controls means that the IRS lacks, on an ongoing basis, the timely, accurate, and useful information needed to make informed management decisions.<sup>3</sup>

The GPRA is intended to increase agency accountability and improve the quality and delivery of Government services. The GPRA holds Federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement. Federal agencies are required to prepare multi-year strategic plans, annual performance plans, and annual program performance reports. The Federal Financial Management Information Act of 1996<sup>4</sup> (FFMIA) requires Inspectors General to report instances and reasons when an agency does not meet target dates set forth in its

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<sup>3</sup> *United States General Accounting Office Report to the Secretary of the Treasury – IRS's Fiscal Years 2001 and 2000 Financial Statements*, February 2002.

<sup>4</sup> The Federal Financial Management Improvement Act of 1996, Pub. L. No. 104-208, also known as the Brown Bill, requires that each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

remediation plan. Past TIGTA and GAO audits have determined that the IRS is not in total compliance with the GPRA and the FFMIA.

CI's mission is to serve the American public by investigating potential criminal Internal Revenue Code (I.R.C.) violations in order to foster confidence in the tax system. In 1999, an independent review of CI, by Judge William Webster, reported that CI was drifting away from its mission. In addition, the Congress is concerned about CI's productivity and decreased enforcement and believes that CI could address key areas of noncompliance and stabilize traditional compliance activities by mining financial data from sources such as Currency Transaction Records, the Financial Crimes Enforcement Network, credit cards, etc. There is also increasing concern that voluntary tax compliance is eroding while the number of tax scams and return preparer and promoter abuses are escalating. CI, for example, usually pursues only the most egregious cases; therefore, many clients of abusive preparers or promoters may have received economic benefits but are not criminally investigated.

The TE/GE Division encompasses several organizations, including Employee Plans; Exempt Organizations; Federal, State and Local Governments; Indian Tribal Governments; and Tax Exempt Bonds. 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 fulfill its tax obligations.

Like the TE/GE Division, the AWSS function has a broad spectrum of activities, including security, rent, facilities and records management, personnel services, equal employment and diversity, procurement, etc. Security of IRS employees, records, and facilities is of major concern, especially after the September 11, 2001, terrorist attacks and the subsequent anthrax scare. All Facilities Management Officers were directed to make an immediate assessment of each IRS office within their service area and, in concert with the General Services Administration and local law enforcement, take any actions necessary to safeguard IRS personnel and assets. Information was also provided to the appropriate personnel with regard to the inspection of incoming mail and packages.

Besides security, other human capital issues include the implementation of the new Human Resources Connect System, accurate and timely processing of personnel and payroll transactions, upgrading of some positions, cross-functional training, and union activities. Space costs, about \$760 million annually, are also of great concern. The IRS has already identified some space that could be released; however, space usage increased by 1 million square feet last year. Another issue that Secretary O'Neill has designated as a priority issue throughout Treasury is records retention. Missing records have been a consistent problem over the last few years.

The National Taxpayer Advocate endeavors to identify and respond to taxpayer concerns, and advocates changes in law or procedures to reduce taxpayer burden. The Chief Counsel's strategic objective includes providing expanded guidance and increased legal support to the IRS units; the Chief Appeals' goal is to ensure that taxpayers are aware of their appeals rights. The Governmental Liaison and Disclosure Division oversees the

confidentiality rights of taxpayers while addressing the public's right to access information. For example, this office ensures that taxpayer information is not disclosed to third parties without proper authorization, information requested under the Freedom of Information Act<sup>5</sup> is released, and taxpayers' rights are protected.

The TIGTA will assess operations in each of the offices during FY 2003. A complete list of the Unit's planned audits and audit objectives is included in Appendix VIII. Four of the planned audits are in response to the RRA 98 statutory reporting requirements. Another two audits address statutory requirements related to the IRS' financial statements and other financial reports.

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## Wage and Investment Income Programs

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The strategic goal of the IRS' W&I Division is to provide top quality service to each taxpayer in every interaction. Most W&I taxpayers contact the IRS once per year and probably hear from the IRS once per year. The W&I Division's three primary sections—Customer Assistance, Relationships and Education (CARE); Customer Account Services (CAS); and Compliance—focus on the approximately 122 million taxpayers with wages and investment income, who file about 94 million tax returns. CARE's mission is to help these taxpayers understand the tax laws so that they can fulfill their tax obligations. CAS' primary role is to process their tax returns, including assuring that new laws are properly incorporated into the process. Compliance enforces the tax laws by identifying those taxpayers who have not reported the proper amount of tax or have not fully paid their tax bill. At the same time, the W&I Division strives to minimize the burden on taxpayers and protect their privacy.

Office of Audit reviews during FY 2002 show that the W&I Division did not always meet its goals. For instance, questions asked at the TAC walk-in sites were answered incorrectly about 27 percent of the time. Sometimes the IRS referred visitors to tax publications rather than assisting with specific responses. In addition, many callers to the toll-free telephone lines received inaccurate answers to their tax questions. Added to the inconsistent service were the taxpayers who could not contact the IRS because local telephone numbers were not published, and taxpayers who received erroneous recorded messages when they called for information about their tax audits.

Similarly, the processing of tax returns had some obstacles, although, overall, the filing season was a great success. For example, the IRS miscalculated the Rate Reduction Credit (RRC) for some 535,000 taxpayers. Another 132,000 taxpayers may not have been given some \$26 million in Additional Child Tax Credit (ACTC) after the IRS adjusted their RRC during the tax return processing. TIGTA reviews also identified 479,000 taxpayers, entitled to approximately \$212 million in ACTC, who did not claim the credit on their returns. The IRS had planned an outreach program to notify these taxpayers of their eligibility but subsequently cancelled those plans. As the result of

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<sup>5</sup> Freedom of Information Act (FOIA), 5 U.S.C. § 552 (1994 & Supp. IV 1998).

another TIGTA review, the IRS identified some 34,000 undelivered refund checks even though the IRS had addresses for the taxpayers that were more current.

Like the other sections, W&I Compliance has its difficulties. The number of balance due accounts over \$100,000 has grown 114 percent in the last 2 years. In addition, taxpayers owing a balance due are more likely to file delinquent returns, have multiple years of assessments, and incur significant penalties and interest. TIGTA reviews also found that, during Tax Years (TY) 1997 and 1999, the IRS incorrectly allowed EIC claims on over 800 taxpayer accounts, resulting in underassessments totaling over \$500,000. Additionally, over 3,000 taxpayers were needlessly burdened by audits during the TY 1998 EIC compliance study. TIGTA reviews also showed that the IRS is still not in full compliance with the RRA 98. For example, on an estimated 29,219 Notices of Federal Tax Liens, taxpayers' rights could have been violated, about 300 taxpayers were improperly labeled as illegal tax protesters, and FY 2001 evaluations on an estimated 4,534 enforcement employees could contain violations of the fair and equitable treatment standards.

FY 2003 TIGTA audits will assess the W&I Division's TY 2002 prefilling and filing season plus the status of compliance efforts. In addition, the TIGTA plans to perform eight statutory audits required by the RRA 98. A complete list of the Unit's planned audits and audit objectives is included in Appendix IX.

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## Small Business and Corporate Programs

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Like the W&I Division, the SB/SE and the LMSB Divisions also focus on helping taxpayers understand the tax laws so that they can fulfill their tax obligations, processing the tax returns, and enforcing compliance with the tax laws. Unlike taxpayers served by the W&I Division, these taxpayers usually have much more frequent contact with the IRS, and these contacts are usually more unique and complicated. The IRS, nevertheless, strives to provide top quality service to each taxpayer in every interaction.

The SB/SE Division services some 40 million taxpayers who have income from sources other than wages and investments, including incomes from small businesses, self-employment, farms, rents, and royalties, or have business expenses related to wages and commissions. As a result of the IRS reorganization, the SB/SE Division is revising its compliance program by re-engineering its examination and collection practices. After several years of decline, Collection results have finally stabilized. During FY 2001, the amount of dollars collected, per hour, by Collection Field function was up and enforcement actions, such as the filing of liens and levies and the seizure of assets, had increased. The inventory of delinquent tax filings decreased; however, the number of unpaid accounts increased.

The SB/SE Examination Program, on the other hand, is still in decline. The number of examinations has decreased while time on each examination has increased. The total tax

assessed per corporate return did increase by over 50 percent, and the hourly rate of tax assessed by Examination on corporations was up; however, the hourly rate decreased on individual examinations. Some of these problems can be attributed to human capital issues. For example, Examination staffing in FY 2001 was down about 7 percent. Enhancing compliance techniques and improving practices to ensure a quality workforce are SB/SE Division initiatives.

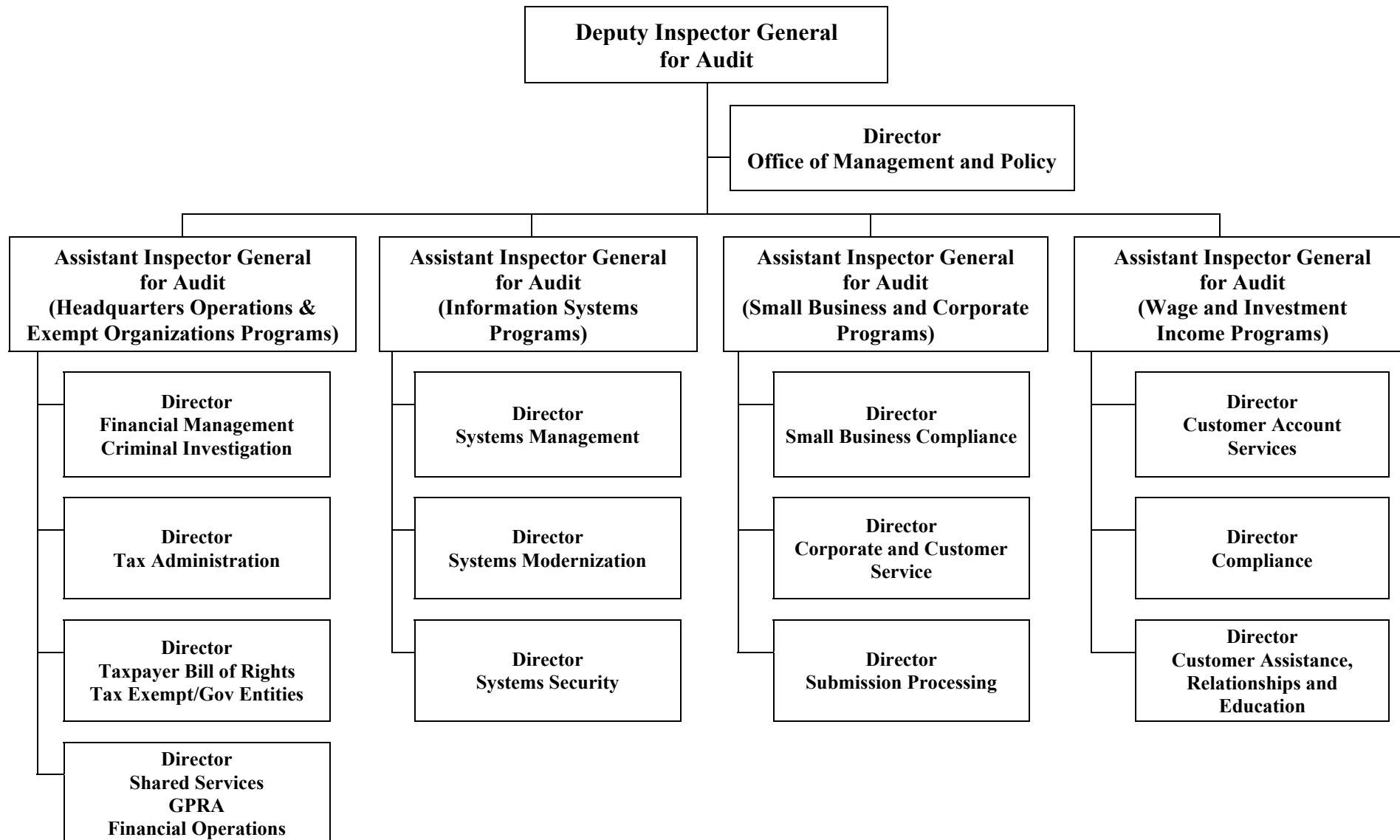
The LMSB Division serves less than 200,000 corporations, subchapter S corporations, and partnerships with assets greater than \$10 million. While this group of taxpayers is relatively small, the issues the IRS faces in its contacts with these taxpayers are much more complicated. For example, the IRS must effectively deal with globalization, abusive tax shelters, offshore tax havens, and industry specialization.

Like the SB/SE Division, the LMSB Division is struggling with Examination productivity and human capital issues. The LMSB Division goal for reducing Examination cycle time, for example, is an ongoing challenge. The Industry Case Examinations are taking more time, thus causing the coverage gap to increase. The shortfall from the predicted to actual is about 29 percent. Furthermore, the LMSB Division estimates that by FY 2006 over 45 percent of the technical workforce will be eligible to retire.

In addition, abusive corporate tax shelters are estimated to be, at least, a \$10 billion tax issue; however, identification is extremely difficult and transactions are complex, often dependent on exploiting legal loopholes. Thus, the LMSB Division must make a multi-faceted effort to identify and examine these issues. Building a tax administration that can effectively deal with globalization plus recruiting, training, and retaining a highly skilled workforce are LMSB Division strategic initiatives.

TIGTA reviews found that the centralization of business tax return processing to the two Submission Processing Centers is on schedule. The IRS successfully processed partnership Schedules K-1 for its Matching Program, and improvements in processing gift tax payments and the associated extensions to file were achieved. Processing business tax returns, however, can still be improved. For example, the IRS should revise the K-1 form to eliminate erroneous notices and explore avenues to minimize tax filing fraud, such as computer programs to stop refunds on illegal claims for reparation credits, identify individuals who inappropriately received disabled access credits, identify frivolous Form 941 refund filers, and strengthen the business matching program. Additionally, identifying inequities in the Self-Employment Tax Program and penalties on certain business tax returns could enhance taxpayer rights. In addition, Disaster Contingency Plans at the two Submission Processing Centers should be updated and tested.

The Small Business and Corporate Programs Unit will concentrate on assessing the IRS' efforts to deal with these and other issues. A complete list of the Unit's planned audits and audit objectives is included in Appendix X.



***MAJOR MANAGEMENT CHALLENGES  
FACING THE INTERNAL REVENUE SERVICE***

The Treasury Inspector General for Tax Administration's (TIGTA) Office of Audit believes the major management challenges facing the Internal Revenue Service (IRS) in Fiscal Year 2003 are:

- ❖ Security of the Internal Revenue Service.
  - The Employees and the Facilities.
  - The Information Systems.
- ❖ Systems Modernization of the Internal Revenue Service.
- ❖ Integrating Performance and Financial Management.
  - Performance Management.
  - Financial Management.
- ❖ Processing Returns and Implementing Tax Law Changes During the Tax Filing Season.
- ❖ Tax Compliance Initiatives (Global Economy).
- ❖ Providing Quality Customer Service Operations.
- ❖ Erroneous Payments.
- ❖ Taxpayer Protection and Rights.
- ❖ Complexity of the Tax Law.
- ❖ Human Capital.

The TIGTA's latest 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\\_auditplans.shtml](http://www.treas.gov/tigta/oa_auditplans.shtml)

## THE INTERNAL REVENUE SERVICE MISSION AND STRATEGIC GOALS AND OBJECTIVES<sup>1</sup>

### IRS STRATEGIC PLANNING FRAMEWORK

#### MISSION

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all

#### GUIDING PRINCIPLES

- Understand and solve problems from taxpayer's point of view
- Enable managers to be accountable - knowledge, responsibility, authority, action
- Align measures of performance at all organizational levels
- Foster open, honest communication
- Insist on total integrity
- Demonstrate effective stewardship of assets and information entrusted to the IRS

#### STRATEGIC GOALS and OBJECTIVES

##### *Service to Each Taxpayer*

- Make filing easier
- Provide first quality service to each taxpayer needing help with his or her return or account
- Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due

##### *Service to All Taxpayers*

- Increase fairness of compliance
- Increase overall compliance

##### *Productivity through a Quality Work Environment*

- Increase employee job satisfaction
- Hold agency employment stable while economy grows and service improves

#### MODERNIZATION PROGRAMS

*Fundamental long-term improvement in way IRS works*

##### Organizational Modernization

- Customer-focused organizational structure
- Clear management roles and responsibilities

##### Business Systems Modernization

- Develop enterprise vision and architecture
- Revamp all major business practices
- Reengineer technology

##### Modernization Projects

##### Balanced Measures

- Align with strategic goals

##### Strategic Measures

- For major taxpayer segments
- Agency as a whole

##### Operational Measures

- For each operational program or activity

##### Operational Priorities

- Specific areas of emphasis to achieve strategies and goals

##### Program Plans

- Program activities and resources
- Operational measures

#### MAJOR STRATEGIES

*How IRS will achieve goals in near term (2-3 years)*

##### Improvement Projects

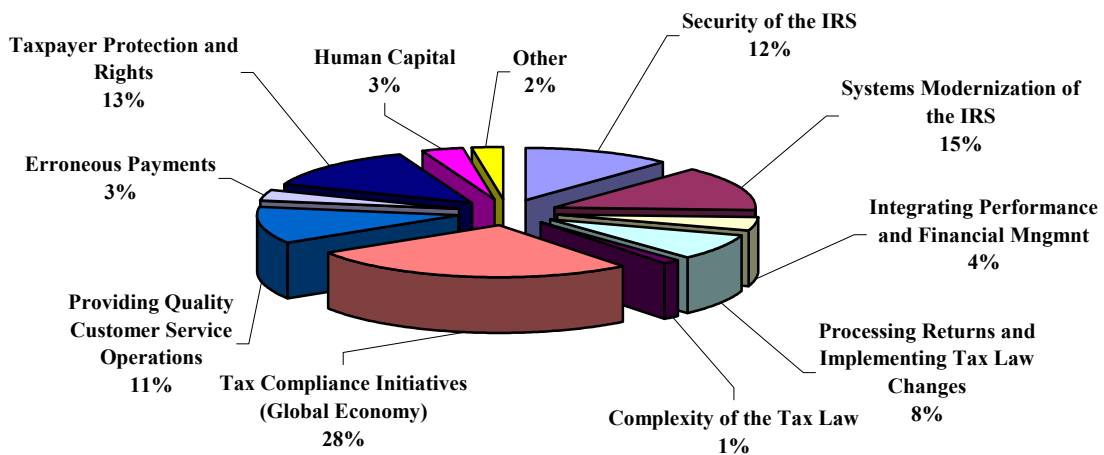
- Focused, near-term improvements in business practices and technology

<sup>1</sup> Excerpt from the Internal Revenue Service FY 2000 – 2005 Strategic Plan (page 21), dated January 2001.



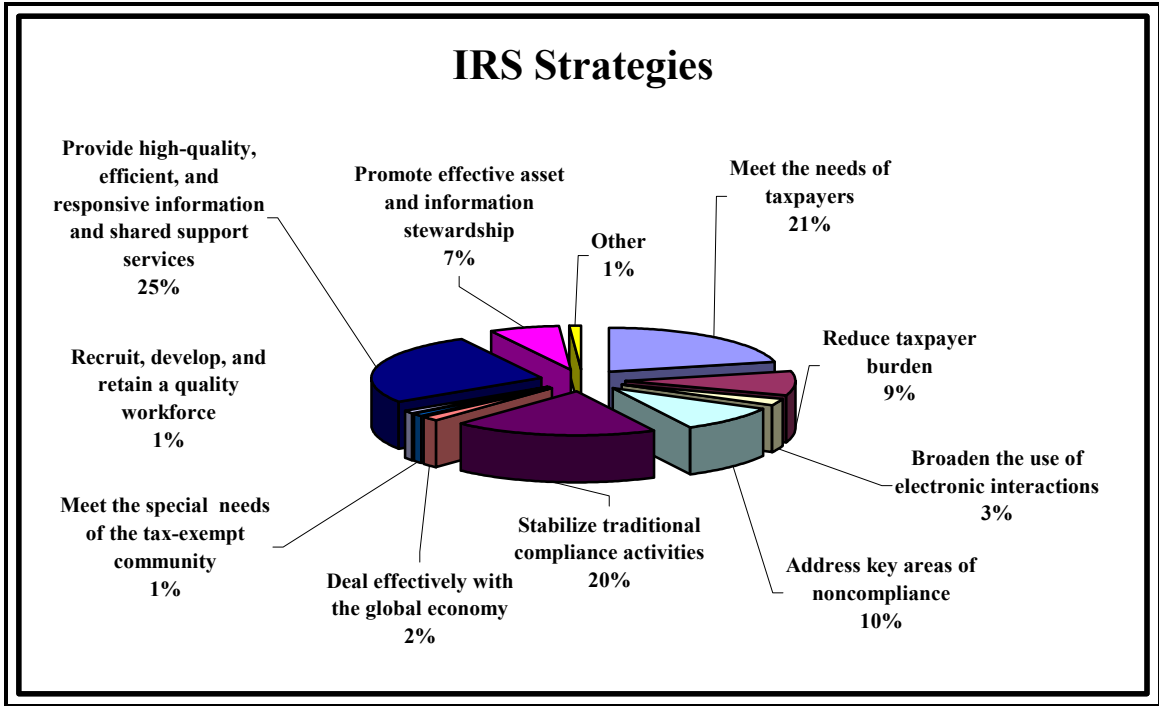
**OFFICE OF AUDIT'S FISCAL YEAR 2003 STAFF DAY ALLOCATION**  
**BY MAJOR CHALLENGES FACING IRS MANAGEMENT**

**Major Challenges Facing IRS Management**



Note: Some audits relate to more than one major challenge area. In addition, FY 2003 staff days are included for audits that were started in FY 2002 with planned completion dates in FY 2003.

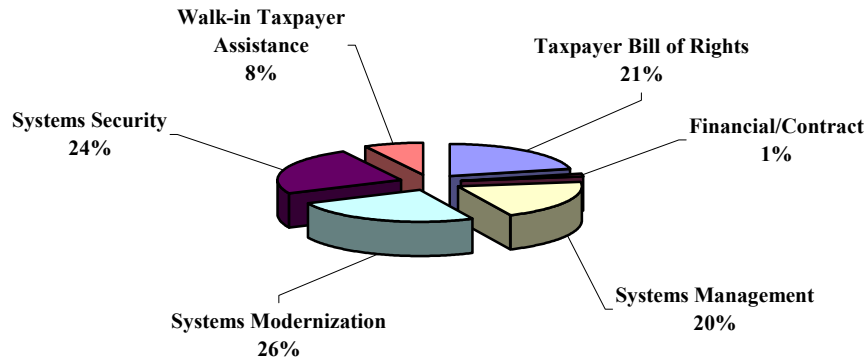
**OFFICE OF AUDIT'S FISCAL YEAR 2003 STAFF DAY ALLOCATION**  
**BY IRS MAJOR STRATEGIES**



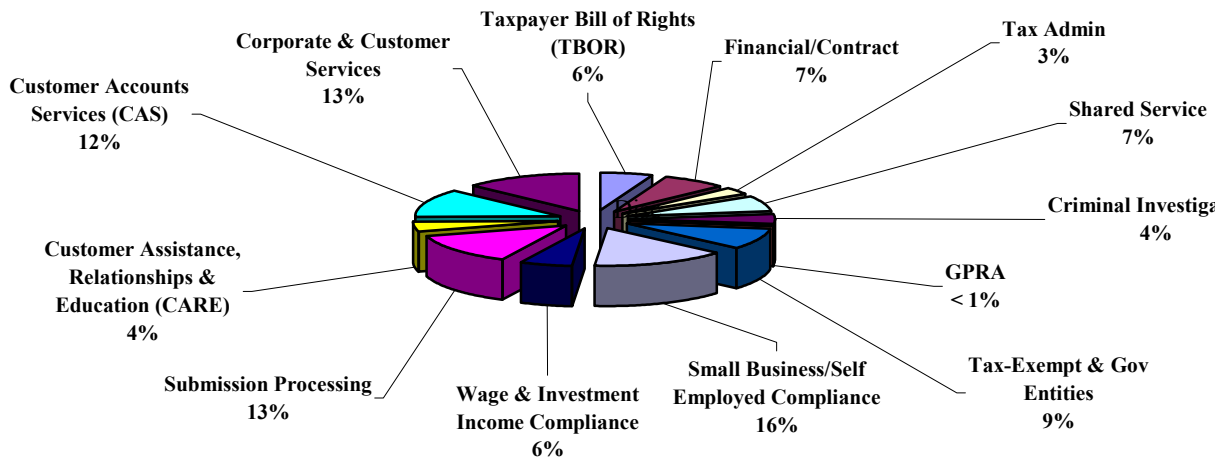
Note: Some audits relate to more than one strategy area. In addition, FY 2003 staff days are included for audits that were started in FY 2002 with planned completion dates in FY 2003.

**OFFICE OF AUDIT'S FISCAL YEAR 2003 STAFF DAY ALLOCATION  
BY STATUTORY AND DISCRETIONARY AUDITS**

**Statutory Coverage (33.7%)**



**Discretionary Coverage (66.3%)**



Note: FY 2003 staff days are included for audits that were started in FY 2002 with planned completion dates in FY 2003.

***LIST OF PLANNED AUDITS  
INFORMATION SYSTEMS PROGRAMS***

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

***Enterprise Architecture for Nonbusiness System Modernization Systems  
(Statutory Review)***

**Audit Objective:** Determine whether the IRS hardware and software procurements for nonmodernization mainframe, mid-range, and end-user computers comply with Enterprise Architecture standards.

***Configuration Management Program (Statutory Review)***

**Audit Objective:** Determine whether the configuration management program within the IRS is efficiently and effectively managed to help ensure that the Information Technology Services (ITS) organization is providing adequate and timely services to its customers.

***Storage Management Activities (Statutory Review)***

**Audit Objectives:** Determine whether storage management practices used by the IRS are efficient and effective, and whether they support the new enterprise-wide shared storage concepts.

***Information Technology Services' Ability to Prioritize Requests for Information Services (Statutory Review)***

**Audit Objectives:** Determine whether the IRS' Request for Information Services process is effective in assuring customer needs are met, and whether the customers are adequately involved in the prioritization process (e.g., Division Information Officer/Chief Information Officer, Chief Counsel).

<sup>1</sup> Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

***Review of the Telecommunications Asset Tool Implementation (Statutory Review)***

**Audit Objective:** Determine whether the new system is effective in controlling telephone charges.

***Telecommunications Disaster Recovery Strategy (Statutory Review)***

**Audit Objective:** Determine whether the IRS has developed an adequate disaster recovery plan, including a complete BCA, a scheduled implementation plan that meets the needs of the business units, and an adequate test plan.

***Information Technology Asset Management System Inventory Information Completeness and Accuracy (Statutory Review)***

**Audit Objectives:** Determine whether the ITS organization is providing efficient and effective management of information technology assets by using the Information Technology Asset Management System application and whether the application controls are adequate to ensure data accuracy.

***Return on Information Technology Services' Investments in Consulting Contracts (Statutory Review)***

**Audit Objectives:** Determine whether the ITS management is effectively managing consulting services, and measure the return on its investments in its consulting contracts.

***Review of the Internal Revenue Service Mainframe Triplex Disaster Recovery Strategy (Statutory Review)***

**Audit Objective:** Determine whether the IRS developed an adequate disaster recovery plan, including a complete BCA, a scheduled implementation plan that meets the needs of the business units, and an adequate test plan.

***Development of Infrastructure Shared Services (Statutory Review)***

**Audit Objective:** Determine whether the IRS' modernized infrastructure will be adequate to support the FY 2003 release projects.

***Development of E-Services Release 1.1 (Statutory Review)***

**Audit Objective:** Determine whether the e-services project team is following key development processes, including managing task orders, project management, schedule and cost realism, testing procedures, plans for support, and inclusion of adequate security requirements.

***Effectiveness of Cost/Schedule Estimating Process (Statutory Review)***

**Audit Objective:** Determine the effectiveness of the Cost and Schedule Estimating Process from establishment of procedures at program level to implementation at project level.

***Deployment of Custodial Accounting Project (Statutory Review)***

**Audit Objective:** Determine whether the project team is following key development processes, including managing task orders, project management, schedule and cost realism, testing procedures, plans for support, and inclusion of adequate security requirements.

***Effectiveness of Requirements Management Process (Statutory Review)***

**Audit Objective:** Determine the effectiveness of the Requirements Management Process from establishment of procedures at program level to implementation at project level.

***Effectiveness of CC01/Enhanced Call Routing Projects (Statutory Review)***

**Audit Objectives:** Determine whether the deployed system delivers the required and expected capabilities, such as systems capacity, access, availability, etc.; and determine if performance awards were paid to the PRIME contractor<sup>2</sup> and, if so, were appropriate.

***Effectiveness of Internet Refund/Fact of Filing Project (Statutory Review)***

**Audit Objectives:** Determine whether the deployed system delivers the required and expected capabilities, such as systems capacity, access, availability, etc.; and determine if performance awards were paid to the PRIME contractor and, if so, were appropriate.

***Development of Customer Account Data Engine Release II (Statutory Review)***

**Audit Objective:** Determine whether the Customer Account Data Engine (CADE) project team is following key development processes, including managing task orders, project management, schedule and cost realism, testing procedures, plans for support, and inclusion of adequate security requirements.

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

***The PRIME Contractor's Ability to Improve Business Systems Modernization Project Integration Efforts (Statutory Review)***

**Audit Objective:** Determine the PRIME contractor's capacity for effective systems integration, and determine how well the PRIME contractor is addressing issues raised by the IRS Commissioner's letter to Computer Sciences Corporation (CSC).

***Annual Business Systems Modernization Assessment (Statutory Review)***

**Audit Objective:** Provide an assessment of Business Systems Modernization (BSM) status and progress based on audits conducted during the year by the TIGTA and the General Accounting Office.

***Development of Filing and Payment Compliance Release I (Statutory Review)***

**Audit Objective:** Determine whether the Filing and Payment Compliance project team is following key development processes, including managing task orders, project management, schedule and cost realism, testing procedures, plans for support, and inclusion of adequate security requirements.

***Classifying Information Technology Projects (Follow Up) (Statutory Review)***

**Audit Objectives:** Determine if conditions identified during a previous audit of Classifying Information Technology Projects<sup>3</sup> have been adequately addressed and corrected, and identify any new concerns regarding project classification.

***Business Resumption Preparation in Modernization, Information Technology, and Security Services Functions (Statutory Review)***

**Audit Objectives:** Determine whether Business Resumption Plans have been developed for the Modernization, Information Technology, and Security Services (MITS) functions, and whether the plans are complete, have been tested, are based on realistic assumptions about the length of time that would be needed to recover key computer systems and applications, and include appropriate employee training in how to implement the plans.

***Effectiveness of Human Capital Management (Statutory Review)***

**Audit Objective:** Determine the effectiveness of the Human Capital Management process within MITS from establishment of procedures at program level to implementation at project level.

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<sup>3</sup> Letter Report: *Authoritative Guidelines and Processes Are Needed for Classifying Information Technology Projects* (Reference Number 2001-20-152, dated August 2001).

***Implementation of Clinger-Cohen Act (Follow Up) (Statutory Review)***

**Audit Objectives:** Determine if conditions identified during the previous audit<sup>4</sup> of the Clinger-Cohen Act<sup>5</sup> have been adequately addressed and corrected, and identify any new concerns regarding compliance with the Act.

***Effectiveness of the Division Information Officer and Service Level Agreement Implementation (Statutory Review)***

**Audit Objective:** Determine whether management effectively implemented the Division Information Officers and Service Level Agreements, including setting application development, maintenance, and procurement priorities.

***Annual Assessment of Information Security in the Internal Revenue Service (Statutory Review)***

**Audit Objective:** Determine whether controls are adequate overall in the IRS to prevent unauthorized access to sensitive data.

***Revenue Accounting Control System Access Controls (Statutory Review)***

**Audit Objective:** Determine whether application controls are adequate to prevent, detect, and deter unauthorized access.

***Integrated Collection System Access Controls (Statutory Review)***

**Audit Objective:** Determine whether application controls are adequate to prevent, detect, and deter unauthorized access.

***Roles and Responsibilities of Key Security Employees (Statutory Review)***

**Audit Objectives:** Determine whether roles and responsibilities for key field employees are clearly defined and whether they have the necessary training and experience to perform those responsibilities.

<sup>4</sup> *The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act* (Reference Number 2001-20-146, dated August 2001).

<sup>5</sup> The Clinger-Cohen Act, also known as the Information Technology Management Reform Act of 1996 (Pub. L. No. 104-106, Division E), supplements the information resources management policies contained in the Paperwork Reduction Act of 1995 by establishing a comprehensive approach for executive agencies to improve the acquisition and management of their information resources.



***Network Security Controls (Statutory Review)***

**Audit Objective:** Compare the number of common security vulnerabilities present in selected sites.

***Compliance with Internet Usage Policy (Statutory Review)***

**Audit Objectives:** Determine whether managers and employees are complying with the Internet usage policy and whether controls are in place to deter and detect noncompliance.

***Penetration Test (Statutory Review)***

**Audit Objective:** Determine whether controls are sufficient to detect and prevent accesses to the IRS' network by unauthorized persons.

***Security Controls Over Web Servers Supporting Internet Applications (Statutory Review)***

**Audit Objective:** Determine whether controls are sufficient to prevent, detect, and deter unauthorized access to sensitive information via web servers.

***Contractor Security (Statutory Review)***

**Audit Objective:** Evaluate controls to ensure that contractors with access to sensitive IRS information are adequately secure.

***Selected Security and Technology Infrastructure Release Components (Statutory Review)***

**Audit Objective:** Determine whether security components of the Security and Technology Infrastructure Release project are available and adequate to protect taxpayer information in the modernized IRS.

***Joint Operations Center Access Controls (Statutory Review)***

**Audit Objective:** Determine whether application controls are adequate to prevent, detect, and deter unauthorized access.

***Criminal Investigation Management Information System Access Controls (Statutory Review)***

**Audit Objective:** Determine whether application controls are adequate to prevent, detect, and deter unauthorized access.

***LIST OF PLANNED AUDITS  
HEADQUARTERS OPERATIONS AND  
EXEMPT ORGANIZATIONS PROGRAMS***

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

***Procurement Fraud Initiative***

**Audit Objectives:** In concert with the Office of Investigations, assess the control implications on allegations of fraud or misconduct, and evaluate contract information and data for fraud indicators and adherence to contract laws and regulations.

***Defense Contract Audit Agency Contract Audit Oversight (Statutory Review)***

**Audit Objective:** Provide the IRS with cost and pricing information resulting from audits conducted by the Defense Contract Audit Agency.

***Vendor Invoice Audits***

**Audit Objective:** Determine if the contractor billed the IRS accurately and according to contract terms and conditions.

***Performance Based Contracts***

**Audit Objective:** Determine the IRS' progress in using meaningful performance based contracts in the acquisition of services.

***E-Commerce in Procurement***

**Audit Objectives:** Determine if the IRS has appropriately implemented e-commerce and has established effective controls when procuring goods and services.

<sup>1</sup> Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

***Federal Financial Management Improvement Act of 1996<sup>2</sup> Remediation Plan  
(Statutory Review)***

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

***Implementation of the Integrated Financial System***

**Audit Objective:** Determine if the IRS has established effective processes to ensure the Integrated Financial System meets Federal financial requirements.

***Custodial Accounting Project Financial Management Requirements***

**Audit Objective:** Determine if the IRS has established effective processes to ensure the Custodial Accounting Project meets Federal financial requirements.

***Reimbursable Work Authorizations***

**Audit Objective:** Determine if the IRS properly maintains sufficient information to support needs, cost estimates, receipt and acceptance, and year-end accruals.

***Chief Financial Officer Organizational Interaction***

**Audit Objective:** Determine if the IRS has effective processes and an efficient organizational structure to manage its finances, including sufficient guidance to and coordination among the various business components, consistent with accounting requirements.

***Efforts to Identify and Develop Legal Source Cases***

**Audit Objective:** Evaluate whether Criminal Investigation (CI) proactively evaluates financial information to develop legal source cases.

***Civil Actions Resulting from Criminal Investigations***

**Audit Objective:** Determine if CI is properly balancing the civil aspects of criminal investigations and properly referring cases to other compliance functions for civil action.

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<sup>2</sup> The Federal Financial Management Improvement Act of 1996, Pub. L. No. 104-208, also known as the Brown Bill, requires that each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

***Monitoring Terms of Probation***

**Audit Objective:** Determine if controls and procedures are effective in monitoring taxpayer compliance with the terms of probation.

***Workload Management***

**Audit Objective:** Evaluate controls used by CI to manage and monitor inventory.

***Rent Management***

**Audit Objective:** Evaluate the management and control of rent and space costs and usage.

***Retention of Records***

**Audit Objective:** Determine whether records are retained for the period required by law and in a manner that ensures records can be located and retrieved.

***Compliance with the Americans with Disabilities Act***

**Audit Objective:** Evaluate compliance with the requirements of the Americans with Disabilities Act<sup>3</sup> to provide reasonable accommodations and access to facilities and communications.

***Personnel and Payroll Transactional Processing***

**Audit Objective:** Evaluate the timeliness and accuracy of personnel and payroll transaction processing.

***Human Resources Connect System***

**Audit Objective:** Evaluate the progress of conversion to the Treasury-wide Human Resources Connect System.

***Security Clearances***

**Audit Objective:** Determine whether employees have the required security clearance for the information to which they have access.

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<sup>3</sup> Americans With Disabilities Act of 1990 (ADA), 42 U.S.C. §§ 12101-12213 (1994 & Supp. IV 1998).

***National Treasury Employees Union Time System***

**Audit Objective:** Determine whether the time keeping system provides adequate control and accurate recording of the use of official time for National Treasury Employees Union (NTEU) activities.

***National Treasury Employees Union Structure***

**Audit Objective:** Determine whether the current NTEU structure is aligned effectively with the organizational structure of the IRS.

***National Treasury Employees Union Partnership Agreements***

**Audit Objective:** Determine which activities are covered by the NTEU and IRS partnering agreements as well as the benefits derived from partnering activities.

***Workers' Compensation Claims***

**Audit Objective:** Determine whether workers' compensation claims are timely and properly evaluated.

***Evaluation of the Training Program***

**Audit Objective:** Determine the type and accuracy of data the IRS has on its training efforts as well as the number and cost of vendor support contracts

***Government Performance Results Act Annual Program<sup>4</sup> Performance Report***

**Audit Objective:** Evaluate the information provided by the IRS in the Annual Program Performance Report.

***Federal Activities Inventory Reform Act of 1998***

**Audit Objective:** Evaluate the IRS' implementation of the Federal Activities Inventory Reform Act of 1998<sup>5</sup> provisions.

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<sup>4</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.).

<sup>5</sup> The Federal Activities Inventory Reform Act of 1998 (Pub. L. No. 105-270), commonly referred to as the FAIR Act, requires all executive agencies to submit to the Congress an annual listing or inventory of activities that are commercial activities, or not inherently governmental, for possible competitive sourcing.

***Taxpayer Advocate's Service Level Agreements***

**Audit Objective:** Evaluate the effectiveness of the Service Level agreements with operating divisions on requests to ensure consistency in taxpayer treatment and case processing.

***Taxpayer Advocate's Systemic Advocacy***

**Audit Objective:** Determine whether the Taxpayer Advocate Service has an effective process to identify and resolve taxpayers' recurring problems.

***Fiscal Year 2003 Appeals Collection Due Process Cases (Statutory Review)***

**Audit Objective:** Determine if Appeals complies with the law when taxpayers exercise their right to appeal the filing of a lien or intent to levy.

***Appeal's Expediting Collection Due Process Case Processing***

**Audit Objective:** Evaluate initiatives taken by Appeals to expedite the processing time of Collection Due Process cases.

***Appeals Processing of Offers in Compromise***

**Audit Objective:** Determine if Appeals ensures compliance with the law and IRS guidelines and provides equitable treatment to taxpayers.

***Chief Counsel's Technical Expedited Advice Memorandum Pilot***

**Audit Objective:** Evaluate Chief Counsel's process for implementing the Technical Expedited Advice Memorandum pilot to provide improved streamlined service.

***Quality Review Process of Research Functions***

**Audit Objective:** Evaluate the effectiveness of the quality review process for assuring that Operations Divisions Research functions meet quality standards.

***Fiscal Year 2003 Fair Debt Collection Practices Act Violations (Statutory Review)***

**Audit Objective:** Obtain information on IRS administrative and civil actions resulting from violations of the Fair Debt Collections Practices Act.<sup>6</sup>

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<sup>6</sup> Fair Debt Collection Practices Act, 15 U.S.C. §§ 1601 note, & 1692-1692o (1994 & Supp. IV 1998).

***Fiscal Year 2003 Freedom of Information Act Denials (Statutory Review)***

**Audit Objective:** Determine if the IRS improperly withheld information requested by taxpayers based on Freedom of Information Act<sup>7</sup> provisions and I.R.C. § 6103 or by replying that responsive records did not exist.

***Disclosure to Third Parties***

**Audit Objective:** Evaluate the IRS' efforts to ensure employees are verifying that third parties have proper taxpayer authorization to discuss taxpayer data.

***Fiscal Year 2003 Taxpayer Complaints (Statutory Review)***

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

***Commissioner's Complaint Processing and Analysis Group—Unauthorized Access Cases***

**Audit Objective:** Determine if the IRS process assures that disciplinary actions are appropriately taken on unauthorized access, also known as UNAX.

***Form 990 E-File (Testing)***

**Audit Objectives:** Determine the effectiveness of system acceptance testing and piloting of the Return of Organization Exempt From Income Tax (Form 990) electronic filing initiative, and determine if the project goals will be met.

***Exempt Organizations Examination Statute Controls***

**Audit Objective:** Evaluate the adequacy and effectiveness of statute controls in the Exempt Organizations (EO) Examination Support Section.

***Exempt Organization Follow-Up Actions on Advance Rulings of Charitable Organizations***

**Audit Objective:** Evaluate the Exempt Organization function process of following up on advance rulings and appropriately classifying the exempt organizations.

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<sup>7</sup> Freedom of Information Act (FOIA), 5 U.S.C. § 552 (1994 & Supp. IV 1998).

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

**Audit Objective:** Evaluate the effectiveness of the Outreach, Planning, and Review Office's efforts to develop a workload selection system that will identify appropriate cases for education and examination activities.

***Employee Plans Compliance Research Program (Market Segment Examinations)***

**Audit Objective:** Determine if the Tax Exempt and Government Entities (TE/GE) management has implemented effective processes for the Compliance Research Program that will enable the Employee Plans function to achieve its goals of base-lining market segment compliance and determining future compliance activities.

***Employee Plans Nonfiler Joint Compliance Strategy***

**Audit Objective:** Determine if TE/GE Division management's plans for the joint nonfiler strategy with the Department of Labor includes sufficient accountability and measurable milestones to track the cost and effectiveness of the strategy.

***Employee Plans Voluntary Compliance Program***

**Audit Objectives:** Determine whether the Employee Plans voluntary compliance program has established effective processes that will increase participation in the program, ensure plan sponsors are provided with appropriate guidance, and ensure that cases will be processed in a timely and consistent manner.

***Impact of Call Demand Growth on Quality and Timeliness***

**Audit Objectives:** Determine if the TE/GE Customer Account Services (CAS) has effectively handled the growth in call demand without a reduction in quality and timeliness of responses; and determine if the TE/GE CAS has an effective process to determine future projected demand and how to meet it.

***Tax Exempt and Government Entities Returns Processing and Resolution***

**Audit Objectives:** Determine the effectiveness of the TE/GE CAS' processes for identifying and resolving returns processing problems, and determine if the TE/GE CAS provides trend data on problems for use in education and outreach efforts.

***Tax Exempt and Government Entities Fraud Awareness***

**Audit Objective:** Determine the effectiveness of TE/GE Division management's efforts to communicate fraud awareness and the fraud referral program to employees.



***Tax Exempt Determination System Release II (Testing)***

**Audit Objectives:** Determine the effectiveness of system acceptance testing and piloting of the Tax Exempt Determination System Release II, and determine if the project goals will be met.

***Integrating Examination Results of Tax Exempt Bonds***

**Audit Objective:** Determine if TE/GE Division management integrates examination results of tax-exempt bonds to focus education and voluntary compliance efforts.

***Local Disaster Relief Assistance (Minus O Freeze)***

**Audit Objective:** Determine the effectiveness of IRS actions to comply with I.R.C. § 6404(h) and to prevent or abate penalties related to extensions granted to individual taxpayers affected by disasters prior to September 11, 2001.

**LIST OF PLANNED AUDITS**  
**WAGE AND INVESTMENT INCOME PROGRAMS**

*Eight of the planned audits for the Wage and Investment Income Programs Unit are in response to the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998<sup>1</sup> (RRA 98)<sup>2</sup> statutory reporting requirements. Eight jobs are coded "statutory" as a result of an amendment to the Treasury spending bill<sup>3</sup> for Fiscal Year (FY) 2002 proposed by Senator Byron Dorgan, (Dem-ND), Chairman of the Subcommittee on Treasury and General Government, requiring the Treasury Inspector General for Tax Administration (TIGTA) to conduct bimonthly audits of the IRS walk-in activities.*

***Wage and Investment Income Research Program***

**Audit Objective:** Determine whether Wage and Investment Income (W&I) research program results are used to improve tax administration.

***Taxpayer Assistance Centers (Statutory Review)***

**Audit Objective:** Determine whether taxpayers receive correct answers to their questions when they visit the Taxpayer Assistance Centers (TAC), including mobile and alternative sites. (Reviews will be conducted bimonthly.)

***Tax Return Preparation at Taxpayer Assistance Centers***

**Audit Objective:** Determine if tax returns are being accurately prepared, based on facts provided by the taxpayer, at the TACs.

***Location of Tax Assistance Centers (Follow Up)***

**Audit Objective:** Determine whether taxpayers can easily determine the location of the TACs (including mobile and alternative sites) and Volunteer Income Tax Assistance sites.

<sup>1</sup> Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>3</sup> Treasury and General Government Appropriations Act, 2002 H.R. 2590.

***Reason for Taxpayer Visits to Tax Assistance Centers***

**Audit Objective:** Determine whether the IRS captures the reason taxpayers visit the TACs to ensure the type of service needed is available when taxpayers request assistance.

***Use of the Telefile Option***

**Audit Objective:** Determine whether taxpayers who qualify are being offered the option to file their taxes by telephone.

***Form 1040EZ Filers Can File Free on the Internet***

**Audit Objective:** Determine whether taxpayers receive clear instructions on how to use the free internet service for filing their tax return electronically.

***Extended Due Date for Electronically Filed Returns***

**Audit Objective:** Determine whether taxpayers are provided with clear information on the due date extensions for electronically filed tax returns.

***Tax Documents for Multilingual Taxpayers***

**Audit Objective:** Determine whether the IRS translates vital documents to assist non-English speaking taxpayers in preparing their tax returns.

***Low Income Tax Clinic Awards***

**Audit Objective:** Determine whether effective controls are in place to ensure that funds allocated for low income tax clinics are properly used.

***Taxpayers with Innocent Spouse Claim Determinations***

**Audit Objective:** Determine whether the IRS has an accurate management information system to track the status of Innocent Spouse cases.

***The Rate Reduction Credit “Under-Tolerance” Clean-up Extract (Rebate Phase IV)***

**Audit Objectives:** Determine if the IRS’ proposed clean-up program will correctly identify the taxpayers who did not receive all of the Rate Reduction Credit they were entitled to on their 2001 returns, and determine if taxpayers who are not entitled to additional credit are included erroneously.

***Computer Assisted Review of Error Resolution System in Customer Assistance, Relationships, and Education***

**Audit Objectives:** Determine if Customer Assistance, Relationships, and Education (CARE) focuses its review on returns with the highest potential for error, and determine if CARE accurately identifies and corrects Error Resolution System errors that affect tax and Taxpayer Notice Codes.

***Earned Income Credit Recertification Program (Follow Up)***

**Audit Objective:** Determine if the IRS has taken appropriate corrective actions to resolve the conditions identified in the first Earned Income Credit (EIC) Recertification audit.<sup>4</sup>

***Earned Income Credit Recertification Program—The Two- and Ten-Year Bans***

**Audit Objective:** Determine if the IRS is accurately using and timely releasing the 2- and 10-year EIC Recertification Indicator.

***Taxpayer Notice Completeness and Accuracy***

**Audit Objective:** Determine whether the IRS has an effective process to identify and correct erroneous taxpayer notices.

***Quality of Internal Revenue Service R-Mail Responses***

**Audit Objective:** Determine the quality of the IRS' toll-free telephone assistance for r-mail questions during the 2003 Filing Season through monitoring, analysis, and evaluation of a sample of r-mail calls.

***Toll-Free Tax Law Quality for the 2003 Filing Season***

**Audit Objective:** Determine whether the IRS has improved the quality of toll-free telephone assistance for tax law questions during the 2003 Filing Season.

***Toll-Free Accounts Quality for the 2003 Filing Season***

**Audit Objective:** Determine whether the IRS has improved the quality of toll-free telephone assistance for accounts-related questions during the 2003 Filing Season.

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<sup>4</sup> *Improvements Are Needed in the Earned Income Credit Recertification Program* (Reference Number 2001-40-030, December 2000)

***Levy Due Process Procedures (Statutory Review)***

**Audit Objective:** Determine if levies issued by the IRS comply with legal guidelines set forth in 26 U.S.C. 6630.

***The Internal Revenue Service's Prefiling Season Actions to Address Staffing and Training Issues for Submission Processing***

**Audit Objective:** Determine whether the IRS has a sufficient number of trained staff to process Individual Income Tax Returns during the 2003 Filing Season.

***The Internet Refund Inquiry System***

**Audit Objective:** Determine whether the new Internet Refund Inquiry System will provide timely and accurate information to individuals who want to know about their refund.

***Protection of Internal Revenue Service Assets Versus One-Stop Service (Follow Up)***

**Audit Objective:** Determine whether the IRS has implemented management controls to mitigate the risks associated with the lack of separation of duties in the Tax Resolution Representative position.<sup>5</sup>

***Effectiveness of the Manual Refund Program***

**Audit Objective:** Determine if controls over manual refunds are adequate to prevent inaccurate, untimely, and inappropriate refunds.

***Tax Law Changes Effective for the 2003 Filing Season***

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

***Request for Information Services Required for Tax Law Changes That Affect the 2003 Filing Season***

**Audit Objective:** Determine whether the IRS timely and accurately initiated Requests for Information Services for tax law changes that affect Individual Income Tax Returns processing during the 2003 Filing Season.

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<sup>5</sup> *Management Advisory Report: New Job Description Gives Employees Broad Authority Without Additional Compensating Controls* (Reference Number: 2002-40-028, December 2001)

***The Internal Revenue Service's Prefiling Season Actions to Address Key Individual E-File Issues***

**Audit Objective:** Determine the IRS' state of readiness to process e-filed Individual Income Tax Returns for the 2003 Filing Season.

***2003 Filing Season Implementation***

**Audit Objective:** Determine whether the IRS timely and accurately processed individual paper and electronic tax returns during the 2003 Filing Season.

***2003 Filing Season Master File Return Settlement and Refund Issuance***

**Audit Objective:** Determine whether Individual Income Tax Returns are posted timely and accurately to the IRS Master File and refunds are issued properly.

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

**Audit Objective:** Determine whether the IRS is complying with the provisions of the I.R.C § 6103(e)(8).

***Enforcement Statistics (Statutory Review)***

**Audit Objective:** Determine whether the IRS is complying with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate employees.

***Extensions of the Assessment Statute of Limitations for Assessment of Tax (Statutory Review)***

**Audit Objective:** Determine whether the IRS is complying with I.R.C. § 6501 and internal guidelines when requesting and processing assessment statute extensions.

***Filing of a Notice of Lien (Statutory Review)***

**Audit Objective:** Determine whether Federal Tax Liens issued by the IRS comply with legal guidelines set forth in I.R.C. § 6320 and related internal guidelines.

***Restrictions on Directly Contacting Taxpayers (Statutory Review)***

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

***Compliance of Seizures (Statutory Review)***

**Audit Objective:** Determine whether seizures conducted by the IRS are in compliance with I.R.C. § 6330 - 6344 and its own internal guidelines.

***Taxpayer Designations—Illegal Tax Protester Designation and Nonfiler Designation (Statutory Review)***

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

***Risk-Based Examination Selection Model for Wage and Investment Reporting Compliance***

**Audit Objective:** Determine whether the risk-based selection model is going to provide an effective process for ensuring equality, balance, and efficiency in the W&I Compliance Program.

***Fraud Program in Wage and Investment Reporting Compliance***

**Audit Objective:** Determine whether the W&I Compliance Program has an effective fraud program to identify instances of fraud to refer for civil and/or criminal actions.

***Automated Underreporter Selection Process in Wage and Investment Compliance***

**Audit Objective:** Determine whether the W&I Automated Underreporter Program is selecting the most productive cases with the greatest impact on voluntary compliance.

***Automated Underreporter Subsequent Abatements in Wage and Investment Compliance (Follow Up)***

**Audit Objective:** Determine whether the W&I Automated Underreporter Program is effectively reducing the need for subsequent abatements of tax assessments.<sup>6</sup>

***Dependent Database in Wage and Investment Compliance***

**Audit Objective:** Determine whether the Dependent Database, used to identify Earned Income Credit (EIC) overclaims, is complete and accurate with adequate controls.

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<sup>6</sup> Follow up on findings in *Audit Reconsideration Cases Create Unnecessary Burden on Taxpayers and the Internal Revenue Service* (Reference Number 2001-40-053, dated March 2001).

***Earned Income Credit Case Selection Method***

**Audit Objective:** Determine if the IRS process for selecting EIC cases is providing the best effect on compliance and fairness to taxpayers.

***Blatant Multiple Dependent Claims in Wage and Investment Examination Program (Follow Up)***

**Audit Objective:** Determine whether W&I Compliance examinations are conducted relative to the most blatant duplicate dependent overclaims (e.g., those dependent SSNs used on three or more returns).<sup>7</sup>

***Examination Discretionary Program Goals in Wage and Investment Compliance***

**Audit Objective:** Determine whether the W&I Division's Examination Discretionary Program is effective in meeting the IRS' goal of service to all taxpayers through the fair and uniform application of the law.

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<sup>7</sup> Follow up on findings in *Duplicate Dependent and Qualifying Child Overclaims Result in Substantial Tax Revenue Losses Each Year* (Reference Number 2001-40-059, dated March 2001).



***LIST OF PLANNED AUDITS  
SMALL BUSINESS AND CORPORATE PROGRAMS***

*All Small Business and Corporate Programs Unit's reviews are discretionary audits.*

***National Research Project Examination***

**Audit Objective:** Determine whether the Examination function will select and examine tax returns to meet the goal of the National Research Project.

***Examination Specialization Program***

**Audit Objective:** Determine whether the Examination function uses the Examination Specialization Program effectively to select and assign cases to examiners.

***Examination Annual Planning Process***

**Audit Objective:** Evaluate the Small Business/Self-Employed (SB/SE) Division processes for establishing the Annual Examination Plan and for monitoring to ensure that the Plan is met.

***Contracting Out Collection Activities***

**Audit Objectives:** Determine whether the selected contractor follows prescribed procedures, and evaluate the Internal Revenue Service's (IRS) process for overseeing the contractor activities.

***Future Compliance on Accepted Offers in Compromise***

**Audit Objective:** Evaluate the IRS controls for ensuring that future compliance is proper for those taxpayers granted Offers in Compromise.

***Effectiveness of New Collection Assignment Procedures***

**Audit Objective:** Determine whether new Collection Field function assignment practices help the SB/SE Division meet its goal of effectively resolving delinquent trust fund accounts.

***Oversight Board Statistical Review Report***

**Audit Objectives:** Provide statistical information to the IRS Oversight Board, and identify statistical trends during the prior fiscal year.

***Disaster Recovery at Small Business/Self-Employed Area Offices***

**Audit Objective:** Evaluate SB/SE Division procedures at area offices to ensure that business resumption plans are in place in case a disaster occurs.

***Bank Secrecy Examinations***

**Audit Objective:** Evaluate the SB/SE Examination function program for ensuring that financial institutions follow the Bank Secrecy Act<sup>1</sup> and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001<sup>2</sup> (or the USA PATRIOT Act) requirements.

***Use of Currency Transactions Records***

**Audit Objective:** Determine whether the IRS effectively uses Currency Transaction Records and Special Activity Reports to promote compliance with tax laws.

***Collection Case Modeling***

**Audit Objective:** Evaluate the effectiveness of the new Collection Case Modeling process.

***Examination Office Audits***

**Audit Objective:** Determine whether new procedures for scheduling and conducting office examinations are effective.

***Federal Tax Deposit Alert Program***

**Audit Objective:** Determine whether the Federal Tax Deposit Alert program is effectively used to bring delinquent trust fund account taxpayers into compliance.

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<sup>1</sup> Bank Secrecy Act (BSA), Pub. L. No. 91-508, 84 Stat. 1114 to 1124 (1970) (codified as amended in scattered sections of 12 U.S.C. and 31 U.S.C.) Regulations for the BSA, and other related statutes, are found in 31 C.F.R. 103.11-103.77 (1999).

<sup>2</sup> The USA PATRIOT Act calls for financial institutions to comply with new regulations designed to prevent and detect money laundering by terrorist organizations. The money laundering-related provisions of the Act amend the BSA and state that “each financial institution shall establish anti-money laundering programs.” (H.R. 3162)

***Trust Fund Compliance Program***

**Audit Objective:** Determine if new Trust Fund Compliance Program guidelines are effectively used to bring delinquent trust fund taxpayers into compliance.

***E-Commerce Compliance***

**Audit Objective:** Evaluate the IRS strategy for ensuring that taxpayers who conduct business electronically comply with tax laws.

***Impacts of Transcription Errors on Business Returns***

**Audit Objectives:** Evaluate the cost of transcription errors on business returns, and identify ways to minimize their impact.

***The Internal Revenue Service's Implementation of Tax Law Changes Affecting Business Taxpayers in Tax Year 2003***

**Audit Objective:** Review the effectiveness of the IRS' implementation of new tax laws affecting business filers.

***Identification of Abusive Trusts***

**Audit Objective:** Identify methodologies the IRS can utilize to quickly recognize abusive trust tax returns during initial processing.

***Processing Undelivered Notices of Taxes Due***

**Audit Objectives:** Evaluate the IRS' handling of undelivered notices of tax due, and determine the financial impact on administration.

***Taxpayer Education and Communication's Ability to Become Operational***

**Audit Objectives:** Evaluate steps the Taxpayer Education and Communication function has taken to become fully operational, and assess when it will become fully operational.

***Timely Processing of Tentative Carryback Refunds***

**Audit Objective:** Determine if Tentative Carryback Refunds are timely issued to satisfy taxpayer rights and to avoid payment of interest by the IRS.

***Farm Income Averaging***

**Audit Objectives:** Identify farmers that filed a Farm Income Averaging (Schedule J) in 1998 and/or 1999 and determine whether they should have filed an amended return for those years and if they did.

***The Internal Revenue Service's Ability to Retrieve Business Tax Returns from Files***

**Audit Objectives:** Determine whether there is a problem obtaining Business Master File (BMF) tax returns from the various Federal Record Centers; if the new Integrated Data Retrieval System group numbers have added to the problem; and the ramifications of not being able to secure the returns for both TIGTA and IRS employees in fulfilling their assigned duties.

***Duplicate Credits for Estimated Payments Resulting in Taxpayers Being Refunded All of the Estimated Taxes Paid***

**Audit Objective:** Develop a computer program to identify and quantify Forms 1120<sup>3</sup> and 1040<sup>4</sup> with duplicate credits that are being issued as a result of taxpayer and IRS line entry errors to reverse these erroneous credits.

***Disabled Access Credit Claimed by Former Internal Revenue Service Employees***

**Audit Objective:** Evaluate information from the Frivolous Filers Unit that former IRS employees are claiming Disabled Access Credit.

***Small Business Corporate Returns (Forms 1120S)***

**Audit Objective:** Determine whether the IRS is effectively notifying taxpayers as to the acceptance/denials regarding elections to be treated as small business S corporations.

***Transaction Processing at the Detroit Computing Center***

**Audit Objective:** Determine the accuracy and effectiveness of transactions and reports processed in conjunction with the USA PATRIOT Act.

***Business Filing Requirements – Handling Nonfiler Issues***

**Audit Objectives:** Determine the accuracy of filing requirements on the BMF and its impact on business nonfiler programs.

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<sup>3</sup> U.S. Corporation Income Tax Return.

<sup>4</sup> U.S. Individual Income Tax Return.

***The Internal Revenue Service's Efforts to Improve Security and Protect Employees at Business Processing Centers***

**Audit Objectives:** Determine whether updated Occupant Emergency Plans have been developed, tested, and communicated to employees; employees have been provided with appropriate information/steps to safeguard against biological threats; and alternative sites have been identified.

***Paper Processing of Error Registers at Business Processing Centers***

**Audit Objectives:** Identify those business returns where the manual correction of errors requires using the paper error register processes, and determine/evaluate the effectiveness of converting them to an on-line error correction system.

***Business Information Returns – Identification of Compliance Issues***

**Audit Objective:** Conduct tests of specific business information returns to identify areas of noncompliance.

***Processing Corporate Returns for Members of a Controlled Group***

**Audit Objectives:** Determine if the IRS is properly processing and assessing the correct amount of tax on corporation returns for members of controlled groups, determine if taxpayers are properly filing and paying the correct amount of tax, and assess IRS processing procedure instructions and programming to identify and evaluate controls in place.

***The Benefits Achieved with the Large and Mid-Size Business Tax Computation Software Initiative***

**Audit Objective:** Determine whether the Large and Mid-Size Business (LMSB) Division investment in Bureau of National Affairs (BNA) tax computation software resulted in more efficient and effective tax computations by revenue agents.

***Analysis of the Quality of Risk Assessments for Industry Cases***

**Audit Objective:** Determine whether the Industry Case Risk Analyses are effective in achieving the goal to apply LMSB resources to high-risk issues.

***Assessment of the Performance of the Large and Mid-Size Business Strategy and Research Office***

**Audit Objective:** Determine whether the Strategy and Research Office is providing effective and efficient value-added services to the LMSB Division operations.

***Benefits and Barriers for Implementing Customer Service Representative Call Monitoring***

**Audit Objective:** Determine the benefits and barriers to implementing the industry standard practice of Customer Service Representative (CSR) call monitoring.

***The Partnership Control System's Usefulness as a Tool for Compliance Purposes***

**Audit Objective:** Determine whether the Partnership Control System provides complete, accurate, and reliable data for the flow-through entity initiatives.

***Effect of Deducting Employee Portion of Self-Employment Tax on Late-Pay or Nonpay Returns***

**Audit Objectives:** Describe the large filing and payment gap for self-employed taxpayers, and evaluate possible legislative and/or regulatory changes.

***Analysis of Changes Needed to Form W-7 to More Closely Align Tax and Immigration Law***

**Audit Objective:** Determine what changes would be necessary to the *Application for IRS Individual Taxpayer Identification Number* (Form W-7)<sup>5</sup> to more closely align the tax and immigration laws.

***Assessment of the Performance of the Small Business/Self-Employed Strategy and Research Office***

**Audit Objective:** Determine whether the Strategy and Research Office is providing effective and efficient value-added services to the SB/SE Division operations.

***Analysis of the Causes of Call Transfers and the Effect on Customer Service Representative Productivity***

**Audit Objective:** Determine the cause and effect of high call transfer rates on CSR productivity.

***Foreign-Based Credit and Debit Card Owners***

**Audit Objective:** Evaluate the results of identifying foreign-based credit and debit card owners.

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<sup>5</sup> The IRS will issue an individual taxpayer identification number (ITIN) to an alien who does not have, and is not eligible for, an SSN. An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status.

***Analysis of Service Center Examination Discretionary Examination Results for Small Business/Self-Employed Sites***

**Audit Objectives:** Evaluate the results of service center examination discretionary work, and determine whether resources are applied in accordance with SB/SE Division operational priorities.

***Trends in Toll-Free Customer Service Representative Calls Answered, Quality, and Budgets***

**Audit Objective:** Prepare trend analysis of toll-free operations for the 1998 to 2002 period for calls answered, quality, and budget.