

TREASURY
INSPECTOR GENERAL

FOR TAX ADMINISTRATION

Annual Audit Plan

Fiscal Year 2011



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Fiscal Year 2011 Annual Audit Plan

Message from the Deputy Inspector General for Audit

Federal agencies are under increasing pressure to effectively deliver their programs in a transparent, accountable, and cost-efficient manner. The Internal Revenue Service (IRS) is no different. The IRS operates in a rapidly changing environment that includes the ever increasing complexity of, and frequent revisions to, the Internal Revenue Code (I.R.C. or Code) making it more difficult to explain and enforce the tax laws and more costly for taxpayers who want to comply. The IRS is also increasingly being asked by the Congress to play major roles in non-traditional tax matters. As the Code is modified to effect broad policy changes, the IRS is faced with the challenge of quickly responding by effectively shifting resources and altering established plans. For example, the recently enacted health care legislation¹ will have a significant effect on the IRS in the coming years.

In addition to these environmental challenges, we believe that in Fiscal Year (FY) 2011 the IRS will continue to face many of the same challenges the TIGTA has previously identified, including ensuring security of its resources, modernization of its computer systems and business processes, addressing the tax gap, balancing customer service and enforcement while protecting taxpayer rights, and strategic management of human capital.

Millions of taxpayers entrust the IRS with sensitive financial, personal, and other data that are processed by and stored on IRS computer systems. Reports of identity thefts from both the private and public sectors have heightened awareness of the need to protect these data. The risk that taxpayers' identities could be stolen by exploiting security weaknesses in the IRS's computer systems continues to increase, as does the risk that IRS computer operations could be disrupted. Internal factors (such as the increased connectivity of computer systems and increased use of portable laptop computers) and external factors (such as the volatile threat environment resulting from increased terrorist and hacker activity) require strong security controls.

In addition to securing the sensitive financial and personal data, the IRS must also protect approximately 100,000 employees and more than 700 facilities throughout the country. Attacks and threats against IRS employees and facilities have risen steadily in recent years. The recent attack on an IRS facility in Austin, Texas, is a stark reminder of the danger that IRS employees face in trying to fulfill their mission. Animosity towards the tax collection process is nothing new, but the Austin incident and other recent events point to a growing hostility towards the Federal Government. Due to the ongoing public sentiment regarding the recently enacted health care legislation, it is anticipated that

¹ Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

threats will increase against IRS employees and facilities. These trends point out the need for the IRS's continuing vigilance in the area of physical security.

The IRS Business Systems Modernization Program is a complex effort to modernize its technology and related business processes. The Program is in its 12th year and has received approximately \$3.72 billion for contractor services and internal IRS costs. While the Modernization Program has helped improve IRS operations, project development activities have not always effectively implemented planned processes or delivered all system capabilities to achieve the Program expectations. Oversight of cost and schedule has improved, but development and management of system requirements continue to need attention. Adding to the possibility of further lapses, the IRS recently revised its Modernization Program and is prototyping a relational data base concept for all taxpayer data. The revised approach requires the IRS to increase its information technology related skills, tools, and operations to effectively deliver the program. Since 1995, the IRS has identified and reported the Modernization Program as a material weakness. Until the IRS is able to show consistent progress and improvement in the management of its Modernization Program, the Program will remain a high risk for the IRS and will continue to be considered a material weakness.

Another compelling challenge for the IRS is tax compliance. Tax compliance initiatives include administering tax regulations and collecting the correct amount of tax dollars from businesses and individuals, and overseeing tax-exempt and government entities. Increasing compliance with the tax code is at the heart of the IRS enforcement programs. The IRS is focusing its casework and enforcement activities to deliver better results and to target those corporations and high-income individuals who fail to report or pay what they owe. The IRS's estimate of the tax gap, which is defined as the difference between what taxpayers are supposed to pay and what is actually and timely paid, is \$345 billion. The IRS has significant challenges in obtaining complete and timely data regarding compliance, and developing the methods for interpreting the data. In addition, the IRS needs broader strategies and better research to effectively address noncompliance.

Congress frequently changes the tax laws, so some level of change is a normal part of the IRS environment. Although the IRS has generally been able to adapt and react to tax law changes, they do have a major effect on how the IRS conducts its activities, determines resource requirements, and progresses toward meeting its strategic goals. While the IRS has recognized the increasing complexity of tax administration in formulating its Strategic Plan, it can never predict with certainty the timing and extent of changes in the tax laws. The American Recovery and Reinvestment Act² (Recovery Act), as an example, presents significant challenges to all Federal agencies as they move to implement provisions quickly while attempting to minimize risk and meet increased standards for transparency and accountability. With its numerous individual and business tax provisions, the Recovery Act will continue to challenge the IRS as it attempts to implement the required changes over multiple filing seasons. The recently enacted health care reform legislation also contains an extensive array of tax law provisions that the IRS

² American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115.

will administer. The IRS estimates that at least 42 provisions will either add to or amend the tax code, and at least eight will require the IRS to build new processes that do not exist within the current tax administration system.

The IRS recognizes that effective taxpayer service has a significant impact on voluntary tax compliance and continues to focus on improving its service. Assisting taxpayers in preparing their returns by answering tax questions reduces the burden of notices and correspondence that taxpayers might have received if they made errors on their returns. Taxpayer service also reduces overall unintentional noncompliance and the need for compliance activity in the future. As a result of resource shifts and other factors, the IRS developed its Taxpayer Assistance Blueprint to improve services for taxpayers by focusing on services that support the needs of individuals who file (or should file) the Form 1040 series tax returns. While the IRS has begun implementing the initiatives, many are dependent upon future funding.

Strategic human capital is an essential part of any organization's efforts to maximize performance and assure accountability for achieving results. Like many other Federal Government agencies, the IRS is experiencing workforce challenges including recruiting, training, and retaining employees, as well as an increasing wave of retirements. To fill the projected leadership shortage, the IRS has stated that it must recruit one manager a day for the next 10 years. The IRS's challenge of having the right people in the right place at the right time is affected by complex internal and external factors.

The IRS also faces significant enforcement challenges by the scope, complexity, and magnitude of the international financial system. As technology continues to advance and cross-border transactions rise, the IRS faces the growing challenge created by economic globalization. Over the past few years, the IRS has taken actions to better coordinate international tax compliance issues. The IRS has developed a strategic plan specifically for international tax issues with goals to enforce the law to ensure all taxpayers meet their obligation to pay taxes and improve service to make voluntary compliance less burdensome. The IRS has also worked with the Department of Justice on tax evasion cases in locations with bank secrecy laws. Recently, the IRS announced that it would realign its operations to create a more centralized organization dedicated to improving international tax compliance. The IRS expects that the Large Business and International division will improve international tax compliance by allowing the Service to focus on high-risk issues and cases with greater consistency and efficiency.

As the IRS adapts to, and operates in, an increasingly complex and rapidly changing environment, we must also adapt to our ever changing environment to continue to meet our mission of assessing and helping to prevent, detect, and deter fraud, waste, and abuse in IRS programs and operations. The Treasury Inspector General for Tax Administration (TIGTA) is being looked to by our stakeholders to provide earlier oversight involvement that provides more of a preventive focus that will reduce costs, prevent or minimize problems from occurring, and ultimately be more effective.

We plan to devote approximately 33 percent of FY 2011 audit resources to projects mandated by law or at the specific request of the Congress, the IRS, the IRS Oversight Board, and other stakeholders. At the same time, we must be nimble enough to focus on

new initiatives such as ones contained in the health care legislation and the acceleration of globalization of tax issues, while maintaining the appropriate focus on our high risk-based assessments. In addition to the individual audits supporting the 10 major management and performance challenges faced by the IRS, during FY 2011 we will focus on several broader audit strategy areas covering the physical security of IRS assets and procurement fraud. Our FY 2011 Annual Audit Plan (see [List of Planned Audits for Fiscal Year 2011 by Major Management and Performance Challenge](#)) is designed to accomplish these goals.



Michael R. Phillips
Deputy Inspector General for Audit

The Mission and the Organization

The TIGTA organization was established in January 1999, in accordance with the Internal Revenue Service Restructuring and Reform Act of 1998,¹ (RRA 98) with the powers and authorities given to other Inspector General organizations under the Inspector General Act². TIGTA provides independent oversight of the Department of the Treasury matters involving IRS activities, the IRS Oversight Board, the National Taxpayer Advocate, and the IRS Office of Chief Counsel.

TIGTA's focus is devoted entirely to the IRS and its related entities, and it conducts independent and objective audits, inspections and evaluations, and investigations of the IRS's programs and activities. 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. TIGTA is committed to providing timely, useful, and reliable information and advice to IRS officials, including its Chief Counsel, the IRS Oversight Board, the Department of the Treasury, Congress, and the public.

TIGTA's Office of Audit identifies opportunities to improve the administration of the nation's tax laws by conducting comprehensive, independent performance and financial audits of IRS programs, operations, and activities to:

- assess efficiency, economy, effectiveness, and program accomplishments;
- ensure compliance with applicable laws and regulations; and
- prevent, detect, and deter fraud, waste, and abuse.

The Office of Audit program is comprised of reviews mandated by statute or regulation, as well as reviews identified through the Office of Audit's planning and evaluation process. The Office of Audit strategically evaluates IRS programs, activities, and functions so that resources are expended in the areas of highest vulnerability to the nation's tax system. TIGTA provides recommendations to improve IRS systems and operations, while ensuring fair and equitable treatment of taxpayers.

Under the leadership of the Inspector General, the Deputy Inspector General for Audit (DIGA) is responsible for the Office of Audit. Five Assistant Inspectors General for Audit (AIGA) report to the DIGA. The five AIGAs cover: 1) Management Services and Exempt Organizations Programs; 2) Security and Information Technology Services; 3) Compliance and Enforcement Operations; and 4) Returns Processing and Accounts Services. A separate AIGA covers the Office of Audit's strategic planning and human resources programs.

Please see [Appendix I](#) for the Office of Audit organization chart.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² Inspector General Act of 1978, 5 U.S.C. app. 3 (2010).

Audit Program for Fiscal Year 2011

The Office of Audit FY 2011 Annual Audit Plan communicates TIGTA's audit priorities to the IRS, Congress, and other interested parties. Many of the activities described in the Annual Audit Plan address the fundamental goals related to the IRS's mission to administer its programs effectively and efficiently.

Each year, the TIGTA identifies and addresses the major management and performance challenges facing the IRS. The Annual Audit Plan is organized by TIGTA's listing of the major challenges facing the IRS for FY 2011 ([Appendix II](#)). Emphasis is placed on the mandatory coverage imposed by the RRA 98³ and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits. During FY 2010 and continuing in FY 2011, the Office of Audit will also focus on the IRS's implementation of the Recovery Act.⁴ The Recovery Act is a far-reaching effort that includes multiple tax law changes, and the impact of some of these will not be apparent for several years. As part of its Recovery Act oversight, TIGTA will continue to coordinate its activities with appropriate external oversight agencies and include the impact of these provisions in its strategic planning activities. TIGTA has several audits planned to monitor Recovery Act issues as shown in [Appendix XVII](#).

The balance of TIGTA's audit work is concentrated on high-risk areas and will focus on the IRS's progress in achieving its strategic goals and eliminating identified material weaknesses. To identify FY 2011 high-risk areas for audit coverage, TIGTA uses a risk-assessment strategy within its core business areas. The AIGAs advise the DIGA on the major risks facing the IRS in their respective program areas and annually propose a national audit plan based on perceived risks, stakeholder concerns, and followup reviews of previously audited areas with significant control weaknesses. In addition, to keep apprised of operating conditions and emerging issues, the Office of Audit maintains liaison and working contact with applicable stakeholders such as IRS executives, the IRS Oversight Board, Department of the Treasury and Government Accountability Office officials, and Congressional staffs. The IRS's goals and objectives for the next fiscal year are highlighted in [Appendix III](#).

³ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁴ American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115.

Office of Audit's Program Areas

The following narratives briefly describe the alignment of the TIGTA business units and the areas within the IRS that these units will review during FY 2011.

Management Services and Exempt Organizations

The Management Services and Exempt Organizations Unit reviews several IRS programs, including Financial Management, the Tax Exempt and Government Entities Division, the Agency-Wide Shared Services function, the Chief Human Capital Officer, the IRS Oversight Board, and acquisition and procurement fraud.

The Management Services and Exempt Organizations Unit also addresses IRS offices reporting directly to the IRS Commissioner, including the Taxpayer Advocate Service, Office of Chief Counsel, Office of Appeals, Office of Equity, Diversity, and Inclusion, and Office of Research, Analysis and Statistics. The National Taxpayer Advocate endeavors to identify and respond to taxpayer concerns and advocates changes in law or procedures to reduce taxpayer burden, while the Chief Counsel's strategic objective includes providing expanded guidance and increased legal support to IRS units.

Security and Information Technology Services

The Security and Information Technology Services Unit assesses the ongoing multibillion dollar, multiyear Business Systems Modernization Program including post-implementation reviews. Some of these core system projects are focused on the activities related to filing and processing tax returns, posting tax return information to accounts, and accessing tax account information. This Unit also reviews the security of IRS computer systems, property and personnel, and disaster recovery procedures and activities.

The Business Systems Modernization Program (Modernization Program or Program) is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system. The IRS originally estimated that the Modernization Program would last up to 15 years and incur contractor costs of approximately \$8 billion.¹ The Program is now in its 12th year and has received approximately \$3.25 billion for contractor services, plus an additional \$468 million for internal IRS costs.

¹ TIGTA Report, Ref. No. 2010-20-094, *Annual Assessment of the Business Systems Modernization Program* (Sept. 2010).

Compliance and Enforcement Operations

The Compliance and Enforcement Operations Unit reviews reporting, filing, and payment compliance IRS-wide. This includes the examination (except for tax-exempt organizations) and collection functions of all taxpayer groups, both international and domestic. This Unit focuses on all tax-related activities concerning compliance with and enforcement of tax laws and regulations, including the Criminal Investigation Division (except the Questionable Refund Program) and tax preparers involved in inappropriate or criminal activity.

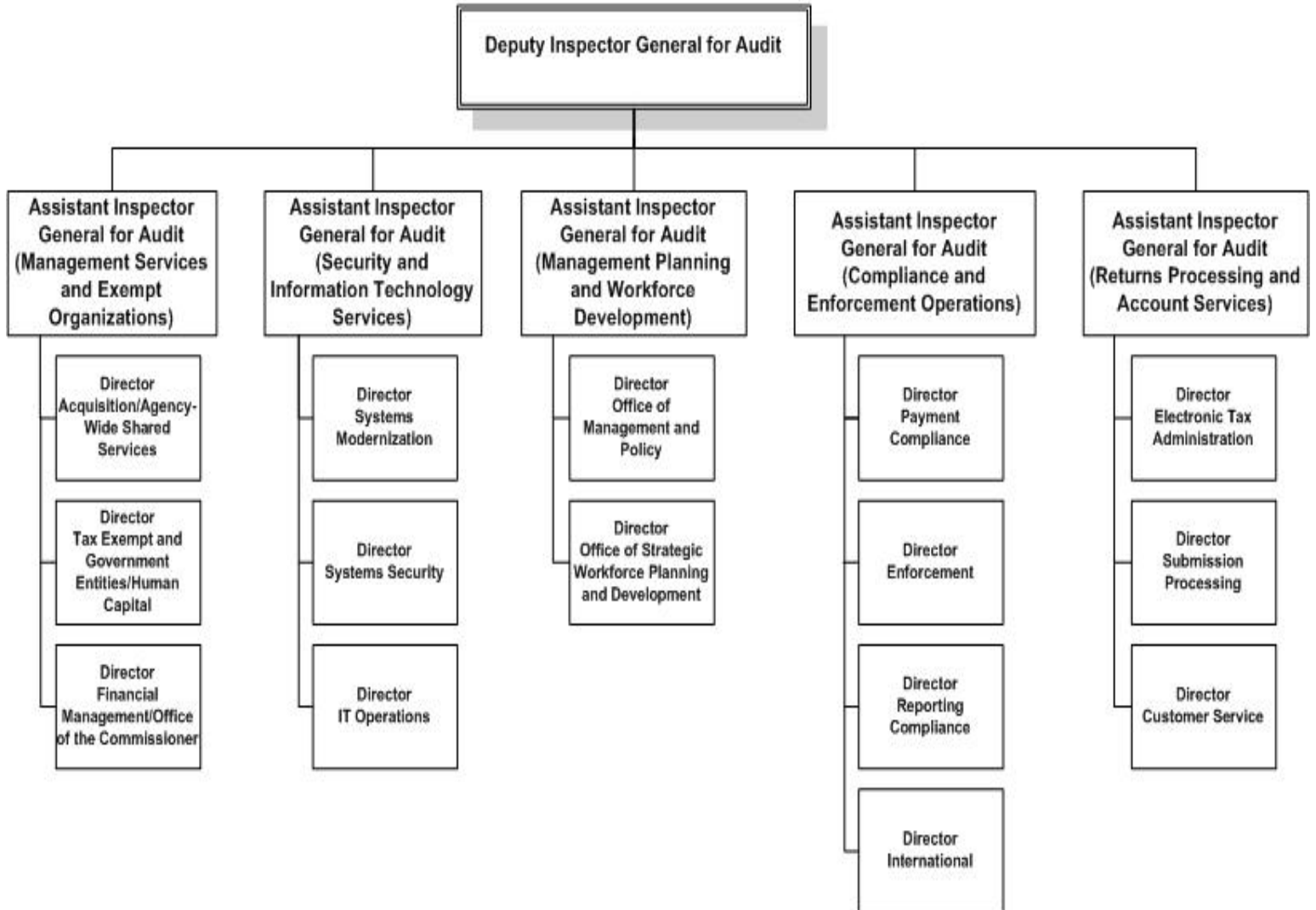
Returns Processing and Accounts Services

The Returns Processing and Accounts Services Unit reviews activities related to the preparation and processing of tax returns and the issuing of refunds to taxpayers. This includes Customer Service activities, outreach efforts, tax law implementation, taxpayer assistance, notices, submission processing, and upfront compliance such as the Frivolous Returns Program and the Criminal Investigation Division's Questionable Refund Program. This Unit focuses on 1) all activities leading to the preparation, filing, processing, posting, and adjusting of tax returns and related tax account information for both business and individual taxpayers, and 2) the authorization and monitoring of tax preparers and electronic return originators.

Management Planning and Workforce Development

The AIGA (Management Planning and Workforce Development) provides assistance to the Audit organization in the areas of strategic and annual planning; quality assurance and oversight, recruiting, training, and staff development activities; performance budgeting; integrity and forensic analyses, electronic data processing and storage; and public affairs.

Organization Chart
Treasury Inspector General for Tax Administration
Office of Audit



Major Management and Performance Challenges Facing the Internal Revenue Service

The TIGTA has identified the following as the major management and performance challenges facing the IRS in FY 2011:

- ❖ Security
- ❖ Modernization
- ❖ Tax Compliance Initiatives
- ❖ Implementing Health Care and Other Tax Law Changes
- ❖ Providing Quality Taxpayer Service Operations
- ❖ Human Capital
- ❖ Erroneous and Improper Payments and Credits
- ❖ Globalization
- ❖ Taxpayer Protection and Rights
- ❖ Leveraging Data to Improve Program Effectiveness and Reduce Costs

The TIGTA FY 2011 annual summary of these issues, including comments on progress the IRS has made toward resolving the challenges or the vulnerabilities that it continues to face in achieving results, may be viewed on the Internet at the following address:

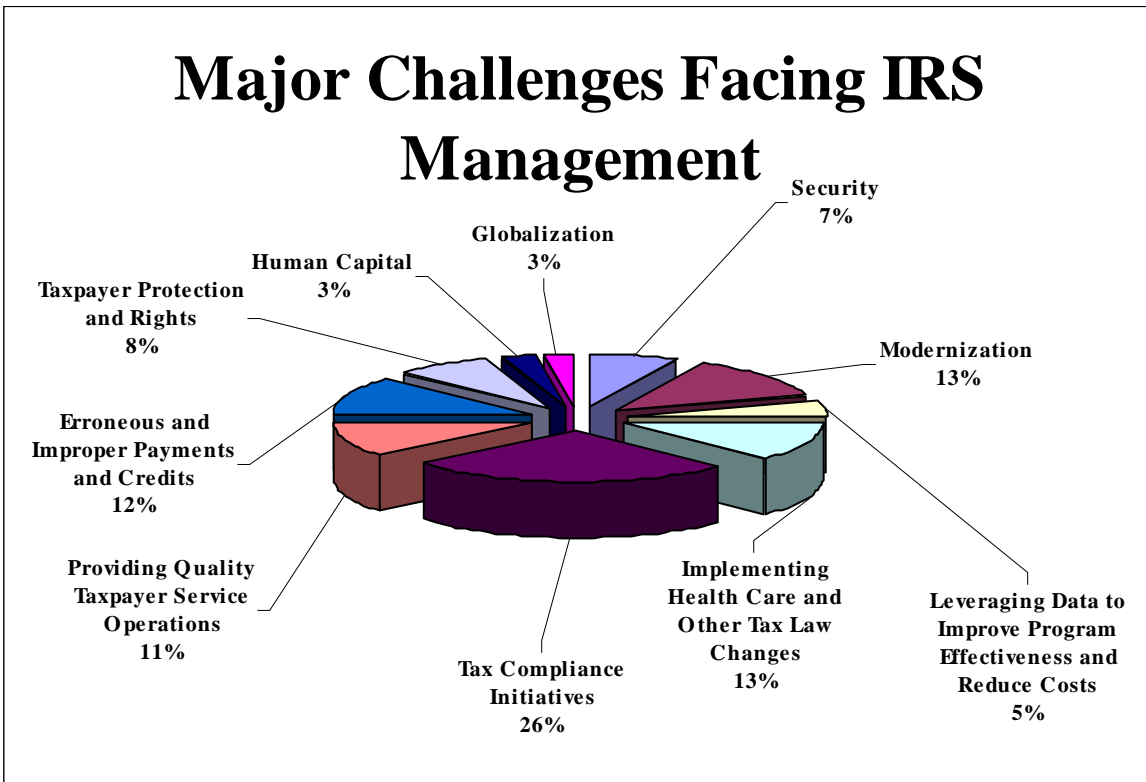
http://www.treas.gov/tigta/oa_management.shtml

The Internal Revenue Service's
Strategic Goals and Foundations¹

IRS Strategic Plan 2009-2013		
Goal 1	Goal 2	Strategic Foundations
Improve Service to Make Voluntary Compliance Easier	Enforce the Law to Ensure Everyone Meets Their Obligation To Pay Taxes	Invest for High Performance
<p>Objectives:</p> <ul style="list-style-type: none"> • Incorporate taxpayer perspectives to improve all service interactions • Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS • Provide taxpayers with targeted, timely guidance and outreach • Strengthen partnerships with tax practitioners, tax preparers and other third parties in order to ensure effective tax administration 	<p>Objectives:</p> <ul style="list-style-type: none"> • Proactively enforce the law in a timely manner while respecting taxpayer rights and minimizing taxpayer burden • Expand enforcement approaches and tools • Meet the challenges of international tax administration • Allocate compliance resources using a data-driven approach to target existing and emerging high-risk areas • Continue focused oversight of the tax-exempt sector • Ensure that all tax practitioners, tax preparers and other third parties in the tax system adhere to professional standards and follow the law 	<p>Objectives:</p> <ul style="list-style-type: none"> • Make the IRS the best place to work in government • Build and deploy advanced information technology systems, processes and tools to improve IRS efficiency and productivity • Use data and research across the organization to make informed decisions and allocate resources • Ensure the privacy and security of data and the safety and security of employees

¹ Excerpt from the Internal Revenue Service FY 2009 – 2013 Strategic Plan, revised 4-2009.

Office of Audit's Fiscal Year 2011
Staff Day Allocation By Major Challenges Facing Internal
Revenue Service Management



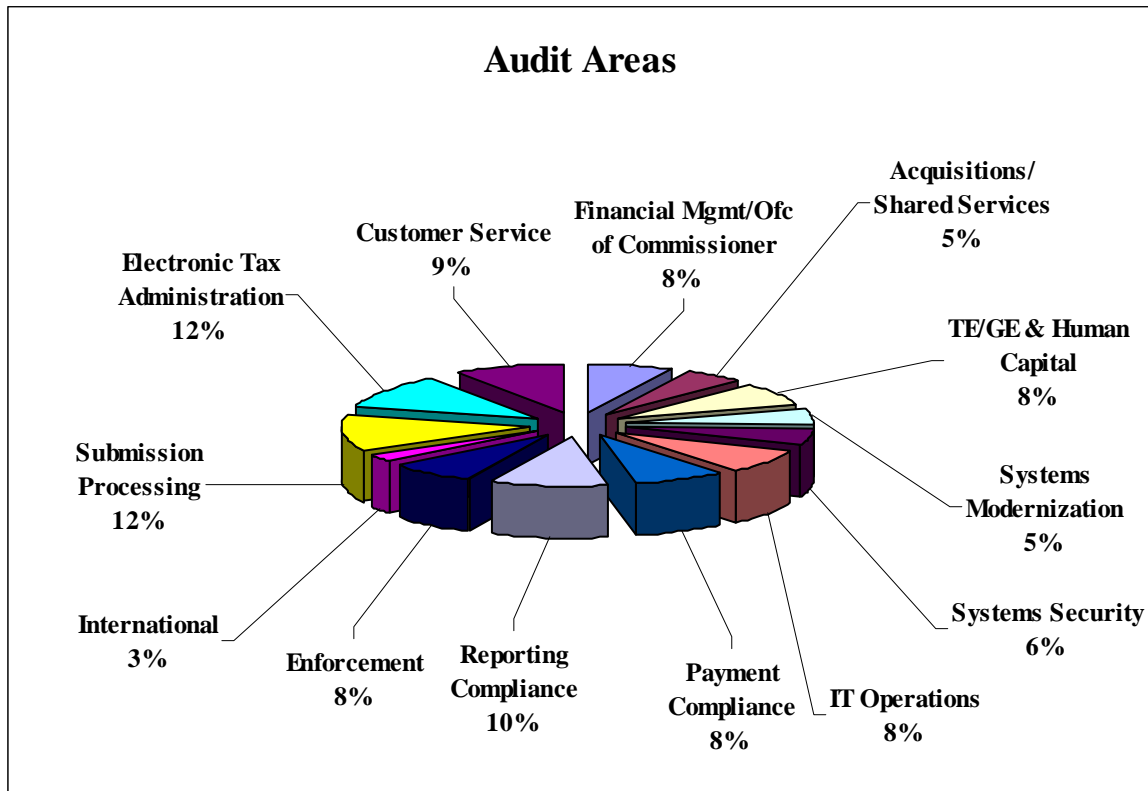
Note: Some audits relate to more than one major challenge area. In addition, Fiscal Year (FY) 2011 staff days are included for audits that were started in FY 2010 with planned completion dates in FY 2011. Totals might not equal 100 percent due to rounding.

Office of Audit's Fiscal Year 2011 Staff Day Allocation By Internal Revenue Service Strategic Plan Goals and Foundations



Note: Some audits relate to more than one strategy area. In addition, Fiscal Year (FY) 2011 staff days are included for audits that were started in FY 2010 with planned completion dates in FY 2011. Totals might not equal 100 percent due to rounding.

Office of Audit's Fiscal Year 2011 Staff Day Allocation by Audit Areas



Note: Fiscal Year (FY) 2011 staff days are included for audits that were started in FY 2010 with planned completion dates in FY 2011. Totals might not equal 100 percent due to rounding.

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Security

List of Planned Audits for Fiscal Year 2011

In addition to securing a vast amount of sensitive financial and personal data, the IRS must also protect approximately 100,000 employees and more than 700 facilities throughout the country. Attacks and threats against IRS employees and facilities have risen steadily in recent years. Concurrent with the IRS's monitoring of threats against its employees and facilities, the Service must also continue its vigilance regarding computer security. As computer usage becomes inextricably integrated into core business processes, the need for effective information system security becomes essential to ensure the confidentiality, integrity, and availability of data.

2011 Federal Information Security Management Act (Unclassified Systems) (2011 – New Start – #201120006)

Audit Objective: Determine the progress made by the IRS in meeting the requirements of the 2011 Federal Information Security Management Act (FISMA)¹ mandatory review of the IRS's unclassified information technology system security program.

2011 Federal Information Security Management Act (National Security Systems - Non-Intelligence) (2011 – New Start – #201120007)

Audit Objective: Determine the progress made by the IRS in meeting the requirements of the 2011 FISMA mandatory review of the IRS's National Security Systems (non-intelligence) program.

Enterprise Governance of Security Weaknesses (2011 – New Start – #201120008)

Audit Objective: Determine whether the IRS is providing sufficient enterprise governance over computer security to ensure the IRS is becoming a security conscious organization and is adequately addressing existing security weaknesses.

Security of Wireless Technology (2011 – New Start – #201120009)

Audit Objective: Determine whether the IRS properly secured the wireless devices on laptop computers and wireless networks. We will focus on security configuration of the devices/network, monitoring the wireless networks, and staff training on wireless security.

¹ 44 U.S.C. §§ 3541 - 3549

Windows Server Security (2011 – New Start – #201120010)

Audit Objective: Determine whether servers with the Windows operating system are configured to provide adequate security over access privileges and auditing capabilities.

Enterprise Reduced Sign-On Effort (2011 – New Start – #201120011)

Audit Objective: At the suggestion of the IRS, determine if the Enterprise Reduced Sign-On program is providing logical access controls via Homeland Security Presidential Directive-12 Personal Identity Verification cards in an effective and secure manner.

Effectiveness of the Computer Security Incident Response Center Program Office (2011 – New Start – #201120012)

Audit Objective: Evaluate the effectiveness of the Computer Security Incident Response Center at preventing, detecting, and responding to computer security incidents targeting IRS computers and data.

Data Loss Prevention (2011 – New Start – #201120013)

Audit Objective: Evaluate efforts over data loss prevention to ensure personally identifiable information and taxpayer data is not being exfiltrated from the IRS.

Emergency Preparedness at IRS Facilities - After Action at Austin (2011 – New Start – #201110006)

Audit Objective: Determine the effectiveness of IRS incident command during the Austin plane incident and the effectiveness of IRS business resumption after the Austin plane incident. This will include the extent and nature of disruptions to IRS operations, and the cost and challenges the IRS faced as a result of the incident.

Secure Electronic Mail Project (2010 – Work in Process - #201020021)

Audit Objective: At the suggestion of the Department of the Treasury, determine whether the use of email messages to taxpayers adequately protects taxpayers' data, sufficiently guards against email threats into the IRS network, and ensures email practices are compliant with Federal regulations and agency policies and procedures.

Access Controls over the Automated Insolvency System (2010 – Work in Process - #201020022)

Audit Objective: At the suggestion of the IRS, determine whether the IRS has implemented access controls for the Automated Insolvency System to protect taxpayers' personal data and to ensure the Government's interest is protected when taxpayers file for bankruptcy.

***2010 Federal Information Security Management Act Review
(Unclassified Systems)*** (2010 – Work in Process - #201020010)

Audit Objective: Determine the progress made by the IRS in meeting the responsibilities established by the National Institute of Standards and Technology and the Office of Management and Budget during the 2010 FISMA mandatory review of the IRS's unclassified information technology system security program.

Non-Mainframe Database Security (2010 – Work in Process - #201020014)

Audit Objective: Determine whether the IRS databases executing in its non-mainframe production environment are adequately configured to properly secure taxpayer data.

Assessment of Ongoing Disaster Recovery Efforts (2010 – Work in Process - #201020024)

Audit Objective: At the request of the IRS, determine whether ongoing efforts on the Disaster Recovery Program will allow the IRS to effectively and timely restore its information infrastructure and applications that support its critical business processes.

Access Controls of the Electronic Filing System (2010 – Work in Process - #201040052)

Audit Objective: Determine if controls over electronic filing are sufficient to prevent unauthorized use of Electronic Filing Identification Numbers.

Modernization

List of Planned Audits for Fiscal Year 2011

The Modernization Program has continued to help improve IRS operations, and is refocusing its efforts to improve business practices with new information technology solutions. However, project development activities have not always effectively implemented planned processes or delivered all planned system capabilities to achieve the Program expectations. The IRS originally estimated that the Modernization Program would last up to 15 years and incur contractor costs of approximately \$8 billion.¹ The Program is now in its 12th year and has received approximately \$3.25 billion for contractor services, plus an additional \$468 million for internal IRS costs.

Development of Customer Account Data Engine-2 Daily Processing for Individual Taxpayer Accounts (2011 – New Start – #201120001)

Audit Objective: Determine the effectiveness of the Daily Processing development activities.

Development of the Customer Account Data Engine-2 Database (2011 – New Start – #201120002)

Audit Objective: Determine the effectiveness of Database Implementation development activities.

2011 Annual Assessment of the Information Technology Program (2011 – New Start – #201120003)

Audit Objective: Assess the progress of the IRS's Information Technology Program (including Modernization, Security, and Operations) for Fiscal Year (FY) 2011.

Development and Implementation of the Portal Strategy (2110 – New Start – #201120004)

Audit Objective: Determine whether the portal development effort is complete, including upgrades to IRS.gov. Also determine whether the project is following sound systems development practices and whether it will provide the infrastructure needed for sufficient access to IRS systems.

¹ Prior TIGTA Report, Ref. No. 2010-20-094, *Annual Assessment of the Business Systems Modernization Program* (Sept. 2010).

Customer Account Data Engine-2 Transition State 1 Testing Strategy and Plan (2011 – New Start – #201120005)

Audit Objective: Determine the adequacy of development and implementation of the program testing strategy and plan. This will include application capability testing, security testing, integration/user acceptance testing, and performance testing.

Consolidation and Virtualization of the Data Center Environment (2011 – New Start – #201120014)

Audit Objective: Evaluate the effectiveness and efficiency of the IRS's efforts to consolidate and virtualize its data center environment.

Mainframe Computer Security and Processing (2011 – New Start – #201120015)

Audit Objective: Evaluate the effectiveness and efficiency of the IRS's IBM mainframe computer operations.

Modernization and Information Technology Services Contract and Vendor Management Office (2011 – New Start – #201120016)

Audit Objective: Evaluate the effectiveness and efficiency of the Modernization and Information Technology Services Contract and Vendor Management Office.

Seat Management (2011 – New Start – #201120017)

Audit Objective: Evaluate the effectiveness and efficiency of the Seat Management Program.

End User Equipment and Services Reorganization (2011 – New Start – #201120018)

Audit Objective: At the suggestion of the IRS, review the implementation of personnel placement and mitigations associated with the End User Equipment and Services reorganization (internal process).

Knowledge Incident/ Problem Services Asset Management System Implementation (2011 – New Start – #201120019)

Audit Objective: Review the effectiveness of the Knowledge Incident/Problem Service Asset Management system to address the accuracy and completeness of the asset inventory, and its enhancements to customer service.

Return Preparer Strategy Implementation (2011 – New Start – #201140003)

Audit Objective: At the request of the IRS Oversight Board, monitor and evaluate the IRS's implementation of the Return Preparer Strategy. This will be a series of audits and is part of a long-term strategy expected to extend through Fiscal Year 2014.

Customer Account Data Engine-2 Prototype Activities (2010 – Work in Process - #201020004)

Audit Objective: At the request of the IRS Oversight Board, determine the effectiveness of the Customer Account Data Engine-2 Program prototype efforts, including applicable security provisions, designed to validate Transition State 1 development plans.

Modernization and Information Technology Services' Applications Development Quality Assurance Process Assessment (2010 – Work in Process - #201020026)

Audit Objective: At the request of the IRS, determine the adequacy of the Applications Development organization's quality assurance process to ensure that projects implement a systematic, planned set of activities that conform to functional, technical, and managerial requirements.

Customer Account Data Engine-2 Program Office Efforts to Develop Transition State 1 Project Requirements (2010 – Work in Process - #201020025)

Audit Objective: Determine the effectiveness of the processes followed and completeness of efforts to develop the requirements for the Daily Processing, Database Implementation, Integration, and Infrastructure projects.

Modernization and Information Technology Services Sustaining Infrastructure Program (2009 – Work in Process - #200920026)

Audit Objective: At the suggestion of the IRS, determine the effectiveness of the IRS's efforts to address the critical issue of sustaining the IRS's information technology infrastructure.

Modernized e-File Release 6.2 Development Activities (2010 – Work in Process – 201020028)

Audit Objective: Determine whether the IRS and its contractors are using sound systems development practices in developing the current Modernized e-File release and follow up on prior audit recommendations including capacity and performance issues.²

Service Operations Command Center (2010 – Work in Process - #201020006)

Audit Objective: Determine whether the Service Operations Command Center organization has implemented and is following Information Technology Infrastructure Library best practices to ensure delivery of Enterprise Operations products and services.

Information Technology Maintenance Contracts (2010 – Work in Process - #201020027)

Audit Objective: Determine whether information technology hardware and software maintenance contracts are effectively managed.

² Prior TIGTA Reports: Ref. No. 2010-20-04, *Modernized e-File Will Enhance Processing of Electronically Filed Individual Tax Returns, but System Development and Security Need Improvement* (May 2010) and Ref. No. 2010-41-047, *Interim Results of the 2010 Filing Season* (Mar. 2010).

Tax Compliance Initiatives

List of Planned Audits for Fiscal Year 2011

Despite an estimated voluntary compliance rate of 84 percent and IRS enforcement efforts, a significant amount of income remains unreported and unpaid. Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and oversight of tax-exempt and government entities.

Trends in Compliance Activities Through Fiscal Year 2010 (2011 – New Start – #201130012)

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

Electronic Federal Tax Payment System Program (2011 – New Start – #201130013)

Audit Objective: Determine the effectiveness of the IRS's Electronic Federal Tax Payment System Program.

Source of Tax Payments Received on Balance Due Accounts (2011 – New Start – #201130015)

Audit Objective: At the suggestion of the IRS Oversight Board, determine whether the IRS is consistent and accurate in applying Designated Payment Codes for payments received on balance due accounts.

Emphasis on Collecting Substitute for Return/6020(b) Assessments (2011 – New Start – #201130017)

Audit Objective: Determine the impact of Substitute for Return/6020(b)¹ assessments on payment compliance.

¹ Pursuant to IRC § 6020(b), a Substitute for Return (SFR) assessment is prepared by the IRS when it is determined that a taxpayer is liable for filing the tax return, but failed to do so after the taxpayer was sent notification from the IRS.

Increase in Levies Issued by Revenue Officers and Use of Summary of Taxpayer Contact When Contacting Taxpayers (2011 – New Start – #201130019)

Audit Objective: Determine if Revenue Officers (or Automated Collection Service representatives) effectively use levies and whether Revenue Officers are using the Summary of Taxpayer Contact (Form 9297).

Collection Fraud Referrals to Criminal Investigation Division (2011 – New Start – #201130020)

Audit Objective: Determine how effectively the Collection Fraud Referral Process is working and if Revenue Officers are considering fraud and referring cases to Criminal Investigation Division when appropriate.

Fraud Consideration in Field Audits (2011 – New Start – #201130021)

Audit Objective: Determine if Revenue Agents are considering fraud during audits in accordance with IRS procedures and guidelines.

Fraud Consideration in Office Audits (2011 – New Start – #201130022)

Audit Objective: Determine if Tax Compliance Officers are considering fraud during audits in accordance with IRS procedures and guidelines.

National Research Program Study on Employment Taxes (2011 – New Start – #201130023)

Audit Objective: Determine the adequacy of the methodology for conducting the National Research Program for employment taxes.

Alternative Dispute Resolution Processes (2011 – New Start – #201130024)

Audit Objective: Determine whether the Alternative Dispute Resolution program is being used to timely and effectively resolve audit issues.

Consumer Debt Forgiveness (2011 – New Start – #201130025)

Audit Objective: Evaluate the success the IRS is achieving in ensuring taxpayers include cancelled debt as income.

Federal Employee/Retiree Delinquencies (2011 – New Start – #201130026)

Audit Objective: Assess the success the Federal Employee/Retiree Delinquency Initiative Program is experiencing in promoting compliance among current and retired federal employees.

Accuracy of Feedback from the National Quality Review System
(2011 – New Start – #201130027)

Audit Objective: Determine the accuracy of results from the National Quality Review System and how management uses the feedback to enhance the quality of correspondence audits.

Revenue Agent Package Audits (2011 – New Start – #201130028)

Audit Objective: Determine whether Revenue Agents are conducting required filing checks in accordance with IRS policies and procedures.

Mortgage Forgiveness (2011 – New Start – #201130029)

Audit Objective: Determine the success the IRS is achieving in implementing key provisions of the Mortgage Forgiveness Debt Relief Act of 2007.²

Use of Currency Transaction Reports in Delinquency Investigations
(2011 – New Start – #201130030)

Audit Objective: Determine the success Revenue Officers are achieving in using currency transaction reports in their tax debt delinquency investigations.

Return Preparers Claiming Maximum Refundable Credits (2011 –
New Start – #201130031)

Audit Objective: Assess potential compliance enhancement opportunities among sole proprietors who are claiming tax credits and using paid preparers.

Examiner Efforts to Collect Agreed Audit Deficiencies (2011 – New
Start – #201130032)

Audit Objective: Evaluate the success IRS examiners are achieving in collecting agreed audit deficiencies.

² Mortgage Forgiveness Debt Relief Act of 2007, Pub. L. No. 110-142.

Whistleblower Office (2011 – New Start – #201130033)

Audit Objective: At the suggestion of the Congress, determine whether the IRS has taken effective corrective actions to address previously identified weaknesses in processing claims from whistleblowers. Specifically, determine if the Whistleblower Office's new procedures are contrary to Congress' intent and will deter whistleblowers from filing claims.

Tax Return Preparer Visitation Program (2011 – New Start – #201130005)

Audit Objective: Evaluate the effectiveness of the IRS's effort to conduct visitations to tax return preparers to improve the accuracy and quality of filed tax returns.

Trends in the Criminal Investigation Division's Enforcement Activities for FY's 2000-2010 (2011 – New Start – #201130034)

Audit Objective: Provide a statistical analysis of trends relating to Criminal Investigation Division's enforcement activities.

Enforcement Actions Against Federal Agencies that Owe Tax
(2011 – New Start – #201130035)

Audit Objective: Determine the effectiveness of IRS's process to collect delinquent employment taxes and secure delinquent employment tax returns from Federal Government entities.

Criminal Investigation Division Special Agent Recruitment and Hiring Process (2011 – New Start – #201130036)

Audit Objective: At the suggestion of the IRS, evaluate the recruitment and hiring of new Special Agents to ensure that current strategies provide the best qualified candidates.

Employment Tax Function Enforcement Activities (2011 – New Start – #201130037)

Audit Objective: Determine if the IRS takes appropriate and timely actions to foster compliance from employers who misclassify workers as independent contractors.

Office of Professional Responsibility Enforcement of Penalties for Paid Tax Return Preparers (2011 – New Start – #201130038)

Audit Objective: Determine if controls are in place to ensure the IRS effectively enforces and applies penalties to paid preparers as required by I.R.C. §§ 6694 and 6695.

The Criminal Investigation Division's Management of its Allocation of Personnel Resources (2011 – New Start – #201130039)

Audit Objective: Determine whether the Criminal Investigation Division has 1) used personnel resources and investigated cases in accordance with its top priorities, and 2) developed and executed a corporate strategy to better assess and allocate personnel resources based on the investigative needs of the organization.

Oversight of the Criminal Fraud Referral Process (2011 – New Start – #201130040)

Audit Objective: Evaluate the IRS's fraud referral program to ensure fraud is properly identified and addressed.

Foreign Corporations Filing Compliance – Followup (2011 – New Start – #201130043)

Audit Objective: Determine whether the IRS's automated penalty process has achieved the goal to encourage filing compliance for entities with Information Return of U.S. Persons with Respect to Certain Foreign Corporations (Forms 5471) and Information Return of a Foreign Owned Corporation (Forms 5472) reporting requirements.³

Chief Counsel Processing of Tax Court Cases (2011 – New Start – #201110011)

Audit Objective: Assess Chief Counsel's process to timely and consistently process Tax Court cases.

FY 2010 Mandatory Review of Fair Tax Collection Practices Act Violations (2011 – New Start – #201110013)

Audit Objective: Obtain information on any IRS administrative or civil actions resulting from violations of Fair Tax Collection Practices.

³ Prior TIGTA Report, Ref. No. 2006-30-075, *Automating the Penalty-Setting Process for Information Returns Related to Foreign Operations and Transactions Shows Promise, but More Work Is Needed* (May 2006).

Automatic Revocation of Tax-Exempt Status for Not Filing an Annual Return or Notice for Three Consecutive Years (2011 – New Start – #201110014)

Audit Objective: At the request of the IRS, assess the adequacy of the IRS's efforts to administer the provisions of the Pension Protection Act of 2006⁴ related to the revocation of an organization's tax exempt status for not filing an annual return or notice for three consecutive years.

Oversight of Non-Bank or Insurance Company Entities Permitted to Act as Trustees Or Custodians Over Certain Employee Retirement Plans (2011 – New Start – #201110015)

Audit Objective: Determine whether the IRS has processes in place to independently verify application and operational information provided by non-bank trustees responsible for administering tax-exempt employee retirement plans.

Exempt Organizations Function's Participation in the National Research Project on Employment Taxes (2011 – New Start – #201110016)

Audit Objective: Determine whether the Exempt Organizations function is adequately following the methodology for conducting the National Research Project on Employment Taxes.

Progress in Implementing the Tax-Exempt Hospital Provisions of the Patient Protection and Affordable Care Act (2011 – New Start – #201110017)

Audit Objective: Assess the IRS's progress in implementing the tax-exempt hospital provisions of the Patient Protection and Affordable Care Act.⁵

Employee Plans Function's Market Segment and Risk-Based Targeted Examination Approach (2011 – New Start – #201110002)

Audit Objective: At the request of the IRS, determine whether the Employee Plans function's workload selection processes provides adequate coverage to the retirement plan universe and identify market segments where noncompliance is most likely.

⁴ Pub. L. No. 109-280, 120 Stat. 780.

⁵ Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

Impact of Reduced Electronically Filed Retirement Plan Data on the Employee Plans Function (2011 – New Start – #201110018)

Audit Objective: Determine whether the Department of Labor’s Employee Retirement Income Security Act Filing Acceptance System will provide the IRS with the information needed to appropriately fulfill its responsibilities concerning tax-exempt employee retirement plans.

Sampling Methodology for Employment Tax (2011 – New Start – #201110001)

Audit Objective: Determine whether the IRS Office of Research, Analysis and Statistics has established an adequate methodology for its Employment Tax National Research Program.

Processing Amended U.S. Individual Income Tax Returns (2011 – New Start – #201140017)

Audit Objective: Determine whether proper controls are in place to ensure that amendments to tax returns resulting in refunds to taxpayer accounts were appropriate, contained the proper documentation, and were completed timely.

General Business Credits (2011 – New Start – #201140023)

Audit Objective: Determine if IRS controls are adequate to identify questionable claims for general business credits claimed on individual income tax returns.

Frivolous Returns Program (2011 – New Start – #201140024)

Audit Objective: Assess the IRS’s efforts to identify and stop frivolous returns filed to obtain refunds or to avoid paying income taxes.

Automated Underreporter Soft Notice Initiatives - Phase II (2010 – Work in Process - #201030043)

Audit Objective: Determine how well the plan for the Automated Underreporter Soft Notice Initiative was implemented and if reliable results were produced for deciding to explain, modify, or terminate the use of soft notices in the Automated Underreported Program.

Collection Notice Stream (2010 – Work in Process - #201030020)

Audit Objective: Determine whether the traditional IRS inventory delivery methods for delinquent accounts can be improved to more equitably address the collection of delinquent taxes and provide timely service to taxpayers with collection problems.

Defaulted Installment Agreements and the Validity of the Default Rate (2010 – Work in Process - #201030017)

Audit Objective: Determine whether streamlined installment agreement requirements are consistently applied, and evaluate defaulted installment agreements for potential improvements and the validity of performance measurements.

Taxpayer Accounts Returned from Private Debt Collection Program (2010 – Work in Process - #201030016)

Audit Objective: Determine the effectiveness of collection actions taken by the IRS on the taxpayer accounts returned from the Private Debt Collection Program.

Use of the Section 6707A Penalty to Promote Compliance with Filing of Reportable Transaction Disclosure Statement (2010 – Work in Process - #201030007)

Audit Objective: Evaluate the IRS's effectiveness in identifying, developing, and applying I.R.C. § 6707A penalties.

Business Masterfile Case Creation Nonfiler Identification Process (2010 – Work in Process - #201030019)

Audit Objective: Determine the effectiveness of the Business Master File (BMF) Case Creation Nonfiler Identification Process in targeting BMF nonfilers who may be delinquent in filing their required tax returns, by improving workload selection and casework quality.

Partnership Audits in Small Business/Self-Employed Division (2010 – Work in Process - #201030027)

Audit Objective: Determine if Small Business/Self-Employed (SB/SE) Division examiners are conducting audits of partnership tax returns in accordance with IRS procedures and guidelines.

Corporate Audits in Small Business/Self-Employed Division (2010 – Work in Process - #201030026)

Audit Objective: Determine if SB/SE Division examiners are conducting audits of corporate tax returns in accordance with IRS procedures and guidelines.

Information Return Matching for Governmental Agencies (2010 –
Work in Process - #201030005)

Audit Objective: Determine the extent government agencies are submitting accurate information returns reporting income payments and whether additional steps may be needed to further enhance compliance with the reporting requirement.

Leveraging the Use of Data on Electronically Filed Returns (2010
– Work in Process - #201030004)

Audit Objective: At the request of the IRS Oversight Board, evaluate the progress the IRS is making to take advantage of the opportunities offered by electronic filing and whether additional steps may be needed to further enhance its efforts.

***Delinquent Returns Filed After Substitute for Return
Assessments*** (2009 – Work in Process - #200930040)

Audit Objective: Determine whether the IRS effectively addresses the compliance risks associated with delinquent income tax returns received from individuals following a Substitute for Return assessment.

Tax Compliance Officer Filing Checks (2010 – Work in Process -
#201030042)

Audit Objective: Determine whether Tax Compliance Officers in the SB/SE Division are conducting required filing checks in accordance with IRS policies and procedures.

National Research Program – Individual Compliance Study (2010
– Work in Process - #201030011)

Audit Objective: At the request of the IRS Oversight Board, determine whether the National Research Program-Individual Compliance Study is being properly implemented and providing reliable results for strategic planning decisions.

Review of S-Corporation Audits (2010 – Work in Process - #201030041)

Audit Objective: Determine if S-Corporation audits are being selected and audited in accordance with IRS policy and procedures.

Frozen Credits (2010 – Work in Process - #201030028)

Audit Objective: Determine whether taxpayer accounts with frozen credit balances are properly monitored and released in accordance with IRS policies and procedures.

Rental Real Estate Passive Activity Losses (2009 – Work in Process - #200930032)

Audit Objective: Determine if the IRS effectively monitors the dollar limits set by I.R.C. § 469 for rental real estate passive activity losses claimed by taxpayers.

Contractors Whose Accounts Are Blocked From the Federal Payment Levy Program (2010 – Work in Process - #201030029)

Audit Objective: Determine why IRS contractors owing millions in delinquent taxes and previously selected for the Federal Payment Levy Program have their accounts blocked from levy, eliminating the IRS from easily attaching guaranteed disbursements that can be used to offset the outstanding debt and potentially reduce the tax gap.

The Correspondence (Discretionary) Examination Process (2010 – Work in Process - #201030034)

Audit Objective: At the request of the IRS Oversight Board, determine whether the IRS's re-engineered correspondence examination process (mail processing, information document requests, and telephone access and service) has resulted in a more responsive and less burdensome process for the taxpayers.

Processing of Restitution Payments and Condition of Probation (2010 – Work in Process - #201030031)

Audit Objective: Determine if criminal defendants convicted of tax-related crimes are held responsible for the payment of the taxes associated with the offenses they committed.

Program Controls to Effectively Process the American Recovery and Reinvestment Act of 2009 Build America Bonds, Recovery Zone Bonds, and Qualified Energy Conservation Bonds (2010 – Work in Process - #201030133)

Audit Objective: Determine whether the IRS has adequately planned for the processing of three Recovery Act bonds for the bond holders to ensure they provide accurate reporting.

Controls Over Pension Income (2010 – Work in Process - #201030036)

Audit Objective: Determine what procedures the IRS has in place to ensure that taxpayers and payers are correctly computing the taxable portions of pensions and annuities correctly.

Criminal Investigation Division's Undercover Operations (2010 –
Work in Process - #201030037)

Audit Objective: Evaluate the appropriateness of financial activities related to selected Criminal Investigation Division's undercover operations.

***The Tax Exempt Bonds Office's Build America Bond
Compliance Check Process*** (2010 – *Work in Process - #201010111*)

Audit Objective: Evaluate the Tax Exempt Bonds office's use of compliance checks to identify indications of a high risk of noncompliance for Build America Bonds, and evaluate the Tax Exempt Bonds office's plans to address the high-risk indicators.

***The Federal, State, and Local Governments Office's Voluntary
Closing Agreements*** (2010 – *Work in Process - #201010010*)

Audit Objective: At the request of the IRS, assess the Federal, State and Local Governments office efforts to oversee and promote public employers' requests for voluntary closing agreements related to self-identified filing and payment errors.

The Employee Tax Compliance Program (2010 – *Work in Process -
#201010019*)

Audit Objective: Determine whether controls in the Employee Tax Compliance Program ensure IRS employees are fulfilling their tax obligations and employee tax compliance cases are being appropriately identified and resolved.

Implementing Health Care and Other Tax Law Changes

List of Planned Audits for Fiscal Year 2011

Each filing season tests the ability of the IRS to implement tax law changes made by the Congress. Correctly implementing tax law changes is a continuing challenge because the IRS must identify the tax law changes; revise the various tax forms, instructions, and publications; and reprogram the computer systems used for processing returns. The recently enacted health care reform legislation⁶ contains an extensive array of tax law changes that will present a significant challenge to the IRS in the coming years. While the Department of Health and Human Services will have the lead role in the legislation's policy provisions, the IRS will administer the legislation's numerous tax provisions.

Implementation of Indoor Tanning Excise Tax and Efforts to Educate Affected Taxpayers (2011 – New Start – #201140001)

Audit Objective: Assess the IRS's efforts to educate affected taxpayers in the tanning industry about how to report and pay the tanning excise tax, and determine whether plans are adequate to enforce and collect the tax.

Planning for Implementation of Health Care (2011 – New Start – #201140025)

Audit Objective: Determine the timeliness and adequacy of updated forms, publications, and other information issued by the IRS related to provisions in the Patient Protection and Affordable Care Act,⁷ and determine the extent to which IRS customer service and enforcement activities have been impacted due to allocation of resources to carry out health care legislation mandates.

2011 Interim Filing Season (2011 – New Start – #201140028)

Audit Objective: Provide selected information relating to the progress of the 2011 Filing Season.

⁶ Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

⁷Ibid.

2011 Filing Season (2011 – New Start – #201140029)

Audit Objective: Evaluate whether the IRS timely and accurately processes individual paper and electronically filed tax returns during the 2010 Filing Season. Include assessment of IRS's actions to update computer programs and forms, publications, and instructions related to tax law changes for 2011 or other changes, and evaluate effectiveness of corrective actions taken to prior TIGTA findings.⁸

Modernized E-File for Individual Tax Returns - Followup (2011 – New Start – #201140030)

Audit Objective: Evaluate the continued implementation of Modernized *e-file* to determine if individual income tax returns will be accurately and timely processed and whether sufficient progress is being made to replace Legacy *e-file* for individual tax returns in 2013.⁹

Tax Preparation Software Errors (2011 – New Start – #201140032)

Audit Objective: Assess the effect that electronic tax preparation software errors have on the accuracy of individual tax returns.

Adoption Credit Claims (2011 – New Start – #201140033)

Audit Objective: Assess the IRS's efforts to ensure accuracy of adoption credit claims.

Reporting Non-Cash Charitable Contributions - Followup (2011 – New Start – #201140035)

Audit Objective: Assess the IRS's actions to ensure taxpayer compliance with non-cash charitable contribution reporting requirements.¹⁰

Efforts to Reduce Erroneous Refunds - Followup (2011 – New Start – #201140037)

Audit Objective: Assess the IRS's efforts to reduce erroneous refunds.¹¹

⁸ Prior TIGTA Report, Ref. No. 2010-41-128, *Verifying Eligibility for Certain New Tax Benefits Was a Challenge for the 2010 Filing Season* (Sept. 2010).

⁹ Prior TIGTA Report, Ref. No. 2010-40-111, *System Errors and Lower Than Expected Tax Return Volumes Affected the Implementation of the Modernized e-File System for Individual Tax Return Processing* (Sept. 2010).

¹⁰ Prior TIGTA Report, Ref. No. 2007-30-049, *The Internal Revenue Service Needs to Improve Procedures to Identify Noncompliance With the Reporting Requirements for Noncash Charitable Contributions* (Mar. 2007).

¹¹ Prior TIGTA Report, Ref. No. 2006-40-137, *Improvements Are Needed to Better Identify and Prevent Erroneous Refunds* (Sept. 2006).

Unreimbursed Employee Expenses (2011 – New Start – #201140038)

Audit Objective: Assess the IRS's actions to ensure taxpayer compliance with unreimbursed employee expenses reporting requirements.

Error Resolution System (2011 – New Start – #201140039)

Audit Objective: Evaluate the effectiveness and efficiency of the IRS's process to correct individual tax return errors.

Modernization and Information Technology Services Planning Efforts for Determining Impact of Health Care Legislation (2011 – New Start – #201120020)

Audit Objective: Determine the effectiveness of Modernization and Information Technology Services (MITS) planning efforts to evaluate and assess the impact of health care legislation¹² on MITS operations and support for other MITS priorities.

Planning for Implementation of the Health Care Legislation in the Tax-Exempt, Human Capital, Acquisition, and Financial Management Functions (2011 – New Start – #201110020)

Audit Objective: Evaluate the adequacy of the IRS's efforts to plan for the implementation of the health care legislation for the tax-exempt, human capital, acquisition, and financial management functions.

Strategy for Implementation of the 2010 Health Care Legislation Revenue Raising Provisions (2011 – New Start – #201130044)

Audit Objective: Evaluate the effectiveness of the IRS's efforts to implement selected revenue raising provisions that were included in the 2010 health care legislation.

Merchant Card Matching (2010 – Work in Process - #201040028)

Audit Objective: Determine if the IRS will be able to timely update its systems to capture and use credit card data to collect the estimated billions in additional revenue.

¹² Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

The Processing of Individual Taxpayer Identification Number Tax Returns in Criminal Investigation (2009 – Work in Process - #200940031)

Audit Objective: Determine if there are significant differences between the procedures used by the Criminal Investigation Fraud Detection Centers to work tax returns filed with Social Security Numbers and tax returns filed with Individual Taxpayer Identification Numbers and, if so, what are the effects on revenue protection and taxpayer burden.

Implementation and Taxpayer Notification of the Making Work Pay Credit-Phase 2 (2010 – Work in Process - #201040139)

Audit Objective: Assess the IRS's efforts to implement the Making Work Pay Credit and to evaluate its impact on taxpayers.

Processing of Amended Returns Claiming the First-Time Homebuyer Credit (2010 – Work in Process - #201040140)

Audit Objective: Determine whether the IRS has controls in place to ensure claims for the First-Time Homebuyer Credit claimed on amended tax returns are appropriately processed.

First-Time Homebuyer Credit (Erroneous Claims) Phase 3 (2010 – Work in Process - #201040141)

Audit Objective: Determine whether the IRS has controls in place that effectively identify erroneous claims for the First-Time Homebuyer Credit.

The Small Business Health Care Tax Credit (2010 – Work in Process - #201040045)

Audit Objective: Determine if the IRS has adequate plans in place to implement the Small Business Health Insurance Tax Credit. Issues include outreach (identification of qualifying businesses), forms and publications, computer programs, training, etc.

Controls Over Erroneous Claims of the Plug-In Electric Vehicle Credit (2010 – Work in Process - #201040131)

Audit Objective: Determine whether the IRS's controls identify erroneous claims for the Plug-In Electric Vehicle Credit and prevent fraudulent claims of the Credit. Also assess whether forms, instructions, and taxpayer education efforts are adequate.

Processing of Amended Returns Claiming Refunds (2010 – Work in Process - #201040027)

Audit Objective: Determine whether proper controls are in place to ensure that amendments to tax returns resulting in refunds to taxpayer accounts were appropriate, contained the proper documentation, and were completed timely.

Process to Ensure Repayment of the First-Time Homebuyer Credit (2010 – Work in Process - #201040107)

Audit Objective: Assess the IRS's efforts to ensure accurate and timely repayment of the First-Time Homebuyer Credit.

Providing Quality Taxpayer Service Operations List of Planned Audits for Fiscal Year 2011

The Department of the Treasury and the IRS recognize that effective taxpayer service has a significant impact on voluntary tax compliance. Assisting taxpayers in preparing their returns by answering tax questions reduces the burden of notices and correspondence that taxpayers might have received if they made errors on their returns. Taxpayer service also reduces overall unintentional noncompliance and the need for compliance activity in the future. The IRS continues to focus on the importance of improving service by emphasizing it as a main goal in its Strategic Plan. One of the IRS's major strategies outlined in its Strategic Plan is to seek innovative ways to simplify or eliminate processes that unnecessarily burden taxpayers or resources.

Offers-in-Compromise Volume and Processing Time (2011 – New Start – #201130014)

Audit Objective: Determine the timeliness, accuracy, and consistency with which the IRS evaluates offers in compromise.

Toll Free Access During the 2010 Filing Season and Effectiveness of the Customer Satisfaction Surveys - Followup (2011 – New Start – #201140002)

Audit Objective: At the suggestion of Congress, evaluate customer service toll-free telephone access during the 2010 Filing Season. We will also determine the effectiveness of the Toll-Free Customer Service surveys.¹

Planning for Customer Service Associated With Health Care Legislation Affecting Individual Taxpayers (2011 – New Start – #201140004)

Audit Objective: At the suggestion of the Congress, determine if the IRS is effectively planning for customer service necessary for individual taxpayers to understand and deal with health care legislation.

Contact Analytics (2011 – New Start – #201140005)

Audit Objective: Determine the effectiveness of the Contact Analytics to improve the capability to analyze the nature of taxpayer calls.

¹ Prior TIGTA Report, Ref. No. 2010-40-108, *Toll-Free Telephone Access Exceeded Expectations, but Access for Hearing- and Speech-Impaired Taxpayers Could Be Improved* (Sept. 2010).

Quality of Services at Volunteer Program Sites During the 2011 Filing Season - Followup (2011 – New Start – #201140006)

Audit Objective: Determine whether taxpayers visiting Volunteer Program sites receive quality service including accurate tax returns.²

E-Help Desk Program - Followup (2011 – New Start – #201140007)

Audit Objective: Determine whether the IRS E-Help Desk Program is providing quality customer service.³

Taxpayer Experience - Followup (2011 – New Start – #201140008)

Audit Objective: Determine the quality of customer service the IRS provides to taxpayers who seek assistance when filing their tax returns, for example assistance received from Taxpayer Assistance Centers, Toll-Free Telephone, Volunteer Programs, and IRS.gov.⁴

Effectiveness of the Volunteer Income Tax Assistance Grant Program (2011 – New Start – #201140009)

Audit Objective: At the suggestion of the Congress, determine whether the Volunteer Income Tax Assistance Grant Program is achieving its purpose of extending services to underserved populations in hard to reach areas, both urban and nonurban.

Injured Spouse Program - Followup (2011 – New Start – #201140010)

Audit Objective: Assess the IRS's efforts to minimize taxpayer burden relating to injured spouse claim processing.⁵

² Prior TIGTA Reports: Ref. No. 2010-40-109, *Improvements to the Volunteer Program Are Producing Positive Results, but Further Improvements Are Needed to the Quality Assurance Process* (Sept. 2010) and Ref. No. 2009-40-128, *Ensuring the Quality Assurance Processes Are Consistently Followed Remains a Significant Challenge for the Volunteer Program* (Sept. 2009).

³ Prior TIGTA Reports: Ref. No. 2007-40-026, *Improvements to the E-Help Desk Are Needed to Support Expanding Electronic Products and Services* (Jan. 2007) and Ref. No. 2008-40-128, *A Self-Assistance Option Would Reduce Burden and Costs Associated With Resolving Rejected Electronic Tax Returns* (June 2008).

⁴ Prior TIGTA Report, Ref. No. 2007-40-164, *The Internal Revenue Service Provides Helpful Tax Law Assistance but Still Has Problems With Tax Return Preparation Assistance* (Aug. 2007).

⁵ Prior TIGTA Report, Ref. No. 2005-40-001, *Injured Spouse Guidance Is Not Consistent* (Oct. 2004).

Direct Debit Installment Agreements Pilot Test (2011 – New Start – #201140011)

Audit Objective: Determine if Direct Debit Installment Agreements established via telephone are implemented accurately and timely, and improve customer service.

Facilitated Self Assistance - Followup (2011 – New Start – #201140012)

Audit Objective: Determine the effectiveness of the facilitated self-assistance at the Taxpayer Assistance Centers.⁶

Assessments of the Estimated Tax Penalty (2011 – New Start – #201140019)

Audit Objective: Identify and quantify those taxpayers inequitably assessed the estimated tax penalty.

Direct Deposit of Refund to More Than One Account (2011 – New Start – #201140021)

Audit Objective: Determine if the IRS has taken appropriate actions to prevent fraudulent use of Direct Deposit of Refund to More than One Account (Form 8888) for tax refunds.

Abatements of the Failure to Pay and Failure to File Penalties
(2011 – New Start – #201140026)

Audit Objective: Evaluate the controls to ensure that IRS employees consistently and objectively apply criteria for waiving or abating the failure to pay and failure to file penalties.

Taxpayer Advocate Service Systemic Advocacy (2010 – Work in Process - #201010002)

Audit Objective: At the suggestion of the IRS, determine whether the Taxpayer Advocate Service has an adequate process for identifying, prioritizing, assigning, and monitoring advocacy projects and whether business measures have been established for the Systemic Advocacy Program.

⁶ Prior TIGTA Reports: Ref. No. 2008-30-166, *Tax Forms and Publications Were Generally Obtainable, but the Time Required to Acquire Forms Could Be Reduced* (Sept. 2008) and Ref. No. 2009-40-047, *There Were Significant Limitations in Phase 1 of the Facilitated Self-Assistance Research Project* (Mar. 2009).

Administration of the Low Income Taxpayer Clinic Grant Program (2010 – Work in Process - #201010003)

Audit Objective: Evaluate the actions taken by Taxpayer Advocate Service management to improve the administration of the Low Income Tax Clinic grant program and determine whether those actions resolved conditions previously identified.⁷

Interactive Tax Law Assistance (2010 – Work in Process - #201040048)

Audit Objective: Determine if the Interactive Tax Law Assistant improves quality and provides assistors with accurate resolutions to taxpayer inquiries.

Field Assistance Geographic Coverage Initiative - Followup (2010 – Work in Process - #201040016)

Audit Objective: At the request of the IRS Oversight Board, determine whether the Geographic Coverage Initiative meets the IRS's strategic goal of improving service to make voluntary compliance easier.⁸

Timely Processing of Taxpayer Correspondence (2010 – Work in Process - #201040022)

Audit Objective: Determine whether the IRS is appropriately processing correspondence from taxpayers or their representatives when required to meet its own policy requirements to respond to the taxpayer within 30 days or provide an update on the status of the response.

Customer Service for Small Businesses - Followup (2010 – Work in Process - #201040026)

Audit Objective: Determine whether the IRS is improving customer service to small businesses.⁹

⁷ Prior TIGTA Reports: Ref. No. 2008-10-142, *Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds* (July 2008); and Ref. No. 2003-40-125, *Improvements Are Needed in the Oversight and Administration of the Low-Income Taxpayer Clinic Program* (May 2003).

⁸ Prior TIGTA Report, Ref. No. 2008-40-118, *Inaccurate and Incomplete Data Have Adversely Affected Implementation of the Taxpayer Assistance Center Geographic Footprint* (May 2008).

⁹ Prior TIGTA Reports: Ref. No. 2000-30-015, *Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers* (Dec. 1999); and Ref. No. 2001-30-118, *A Prototype to Help New Small Business Employers Appears Effective, But More Information Is Needed Before Expanding It Nationwide* (Aug. 2001).

Assisting Taxpayers in Resolving Math Error Notices (2010 – Work in Process - #201040049)

Audit Objective: Determine if taxpayer responses to math error notices are worked timely and accurately in order to protect the taxpayer's right to appeal the adjustment.

Human Capital

List of Planned Audits for Fiscal Year 2011

The IRS's challenge of having the right people in the right place at the right time is made more difficult by many complex internal and external factors. The work performed by IRS employees continually requires greater expertise as tax laws become more complex, manual systems used to support tax administration become computer-based, and attempts by taxpayers and tax practitioners to evade compliance with the tax laws become more sophisticated.

Use of Recruiting and Retention Incentives (2011 – New Start – #201110019)

Audit Objective: Determine whether the IRS is effectively overseeing its use of recruitment and retention incentives to hire and retain qualified employees for hard-to-fill positions.

Senior Executive Service Diversity (2009 – Work in Process - #200910003)

Audit Objective: Determine the level of diversity in the IRS's Senior Executive Service (SES) appointments and whether the IRS has an effective strategy that complies with applicable laws and diversity guidelines and ensures greater diversity within executive and senior-level positions. We will also determine whether the IRS's policies, procedures, and controls ensure the fair and equal treatment of any qualified candidates applying for executive level development programs and SES appointments.

Size of the Acquisition Workforce (2010 – Work in Process - #201010012)

Audit Objective: Assess the IRS's efforts to determine the size, skills and competencies of its acquisition workforce.

Frontline Manager Readiness Program (2010 – Work in Process - #201010018)

Audit Objective: At the suggestion of the IRS Oversight Board, determine whether the Frontline Manager Readiness Program provides the IRS with a pool of qualified candidates ready for promotion into management positions and whether the IRS measures the impact of the Program.

Hiring Timelines – Human Capital Office (2010 – Work in Process - #201010008)

Audit Objective: At the request of the IRS, determine whether the IRS's Human Capital Office has developed an adequate methodology to monitor and improve the timeliness of hiring new employees.

Collection Hiring Initiative (2010 – Work in Process - #201030015)

Audit Objective: Determine whether the SB/SE Division has effectively implemented the FY 2009 and FY 2010 Revenue Officer hiring initiatives.

Erroneous and Improper Payments and Credits List of Planned Audits for Fiscal Year 2011

For the IRS, improper and erroneous credits and payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors. This challenge also includes refundable credits that the IRS administers and contracts or other payments made by the IRS.

Evaluation of Citibank Purchase Card Rebates and Timeliness of Payments to Citibank (2011 – New Start – #201110003)

Audit Objective: Determine whether the IRS has established sufficient controls and procedures to ensure that purchase card payments to Citibank are timely processed and that accurate rebates are received and allocated properly.

Evaluation of Fleet Credit Card Rebates (2011 – New Start – #201110004)

Audit Objective: Determine whether the IRS has established sufficient controls and procedures to ensure that fleet credit card payments to Citibank are timely processed and that accurate rebates are received and allocated properly.

Costs Incurred for Procurements Funded by the American Recovery and Reinvestment Act of 2009 (2011 – New Start – #201110105)

Audit Objective: Determine whether the receipt and acceptance process on IRS Recovery Act¹⁰ planned/funded procurements was performed properly and whether all invoices presented for payment were for allowable costs and were appropriately supported with documentation.

Evaluation of Purchase Card Convenience Checks (2011 – New Start – #201110007)

Audit Objective: Determine whether the IRS has established sufficient controls and procedures to help prevent misuse of purchase card convenience checks.

¹⁰ American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115.

Accuracy of Costs Charged for Lockbox Fingerprints (2011 – New Start – #201110012)

Audit Objective: At the suggestion of the IRS, determine whether the IRS is being properly charged for fingerprint costs associated with contractors assigned to the IRS lockbox operations.

Large Business and International Document Matching (2011 – New Start – #201140015)

Audit Objective: Determine whether the Large Business and International's document matching program is effective in ensuring that foreign taxpayers receiving refunds are entitled to those refunds.

Annual Withholding Tax Return for U.S. Source Income of Foreign Persons Matching (2011 – New Start – #201140016)

Audit Objective: Evaluate the impact that not matching Annual Withholding Tax Return for U.S. Source Income of Foreign Persons (Forms 1042) to Foreign Person's U.S. Source Income Subject to Withholding (Forms 1042-S) has on compliance and revenue protection.

Information Returns Processing Documents (2011 – New Start – #201140020)

Audit Objective: Determine the extent that fraudulent wage reporting documents are used to obtain refunds, and what controls are in place beyond those in the Taxpayer Assurance Program.

Wage and Withholding Verification for Individual Tax Returns (2011 – New Start – #201140031)

Audit Objective: Evaluate the effectiveness of the IRS's wage and withholding verification process to confirm fraudulent refunds.

Individual Taxpayer Identification Number Compliance Strategy (2011 – New Start – #201140036)

Audit Objective: Assess the effectiveness of the Individual Taxpayer Identification Number Program Office Compliance Strategy.

Small Business/Self-Employed Division Controls to Safeguard Fleet Charge Cards (2009 – Work in Process - #200910026)

Audit Objective: Determine whether the IRS's SB/SE Division has established effective controls over its fleet charge card program and whether those controls are sufficient to identify, address, and prevent errors and instances of fraud, waste, and abuse relating to SB/SE fleet charge cards.

Post-Award Compliance of Procurement Actions Funded by the American Recovery and Reinvestment Act of 2009 (2010 – Work in Process - #201010114)

Audit Objective: Determine whether the IRS has complied with Recovery Act requirements and implementing guidance in planning and awarding Recovery Act funded procurement actions.

Contractor Suspension and Debarment Overview (2009 – Work in Process - #200910023)

Audit Objective: Determine whether the IRS has an effective contract pre-award process for identifying and excluding dishonest, unethical, or otherwise non-responsible contractors from being awarded Federal contracts, and awarding IRS procurements to only presently responsible contractors.

Use of Government Purchase Cards for Non-Contract Acquisitions (2009 – Work in Process - #200910009)

Audit Objective: Determine whether the IRS's controls over government micro-purchase cards are sufficient to ensure that the IRS's use of purchase cards is in compliance with all applicable regulations and procedures.

Refunds Issued to Foreign Countries (2010 – Work in Process - #201040032)

Audit Objective: Determine whether the IRS has adequate controls to ensure that both manual and computer-generated refunds issued to foreign countries receive the proper scrutiny to determine that they are valid and correct.

Efforts to Reduce Improper Earned Income Tax Credit Payments (2010 – Work in Process - #201040044)

Audit Objective: Assess the IRS's efforts to implement Executive Order 13520.

Assessment of Prisoner Fraud (2010 – Work in Process - #201040010)

Audit Objective: Assess the IRS's efforts to reduce prisoner fraud, including an assessment of the IRS's compliance with the Inmate Tax Fraud Prevention Act.¹¹

Deductions Associated with the Purchase of Qualified Motor Vehicles (2010 – Work in Process - #201040108)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous qualified motor vehicle deductions.

Procedures To Ensure Investment Theft Loss Claims Are Valid
(2010 – Work in Process - #201040042)

Audit Objective: Assess the IRS's efforts to ensure validity of deductions for investment theft losses (Ponzi scheme).

Erroneous Claims for the American Opportunity Tax Credit (2010
– Work in Process - #201040147)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous American Opportunity Tax Credit claims.

Residential Energy Credits (2010 – Work in Process - #201040109)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous Residential Energy Credits.

Enforcement Actions - First-Time Homebuyer Credit (2010 – Work
in Process - #201040151)

Audit Objective: Determine if the IRS compliance functions will be able to adequately address questionable claims for the First-Time Homebuyer Credit.

¹¹ Pub L. No. 110-428, 122 Stat. 4839.

Globalization

List of Planned Audits for Fiscal Year 2011

The scope, complexity, and magnitude of the international financial system present significant enforcement challenges for the IRS. International business and investment in the U.S. has grown from nearly \$188 billion in 1976 to over \$14.5 trillion in 2007, while U.S. business and investment grew from nearly \$368 billion to nearly \$15 trillion over the same period. Taxpayers with international activities – individuals, businesses, and tax-exempt organizations – continue to grow in number and variety. The IRS is challenged by a lack of information reporting on many cross-border transactions. In addition, the varying legal requirements imposed by different jurisdictions result in the formation of complex business structures that make it difficult to determine the full scope and effect of cross-border transactions.

Voluntary Disclosure Program (2011 – New Start – #201130007)

Audit Objective: Determine if the IRS's voluntary disclosure practices are effective especially with the high volume of cases received, and determine if all cases have been appropriately worked.

Central Withholding Agreements (2011 – New Start – #201130006)

Audit Objective: Identify how the IRS is monitoring the use of the Central Withholding Agreements (CWA). Also, determine if the CWA program is working as intended and taxpayers are properly following the regulations concerning the CWA program.

Offshore Compliance Initiatives (2011 – New Start – #201130041)

Audit Objective: Determine whether the offshore compliance initiatives are effective in identifying noncompliance and whether proper assessments and collections have been achieved.

Access to Appropriate Data for the International Examiners (2011 – New Start – #201130042)

Audit Objective: At the request of the IRS, determine if the International Tax examiners are obtaining appropriate access to all pertinent information during their examinations of international taxpayers.

Taxpayer Protection and Rights List of Planned Audits for Fiscal Year 2011

The IRS must ensure that tax compliance activities are balanced against the rights of taxpayers to receive fair and equitable treatment. The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of RRA 98.¹²

FY 2011 Mandatory Review of Liens (2011 – New Start - #201130001)

Audit Objective: Determine if liens issued by the IRS comply with legal provisions set forth in the I.R.C. and related guidance in the Federal Tax Lien Handbook.

FY 2011 Mandatory Review of Seizures (2011 – New Start - #201130002)

Audit Objective: Determine whether seizures conducted by the IRS complied with legal provisions set forth in I.R.C. §§ 6330 through 6344 and with the IRS's own internal procedures.

FY 2011 Mandatory Review of Levies (2011 – New Start - #201130003)

Audit Objective: Determine whether the IRS has complied with 26 U.S.C. § 6330, Notice and Opportunity for Hearing Before Levy.

FY 2011 Mandatory Review of Assessment Statute Extension

Dates (2011 – New Start – #201130008)

Audit Objective: Determine whether the IRS is complying with I.R.C. § 6501(c)(4)(B), which requires the IRS to provide notice to taxpayers of their right to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or to specific issues.

FY 2011 Mandatory Review of Disclosure of Collection Activities on Joint Returns (2011 – New Start – #201130009)

Audit Objective: Determine if the IRS is complying with the provisions of I.R.C. § 6103(e)(8) as related to the disclosure of collection activities to joint filers.

¹² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

FY 2011 Mandatory Review of Restrictions on Directly Contacting Taxpayers (2011 – New Start – #201130004)

Audit Objective: Determine if the IRS is in compliance with legal guidelines addressing the direct contact of taxpayers and their representatives set forth in I.R.C. § 7521(b)(2) and (c).

FY 2011 Mandatory Review of the Compliance with the Freedom of Information Act (2011 – New Start – #201130010)

Audit Objective: Determine whether the IRS has adequate and effective policies and procedures to ensure compliance with the Freedom of Information Act¹³ and implementing regulations.

FY 2011 Mandatory Review of Compliance with Restrictions on the Use of Enforcement Statistics (2011 – New Start – #201130011)

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

FY 2011 Mandatory Review of Collection Due Process (2011 – New Start – #201110008)

Audit Objective: Determine if the IRS complied with 26 U.S.C. §§ 6320(b) and (c) and 6330(b) and (c) when taxpayers exercised their right to appeal the filing of a Notice of Federal Tax Lien or issuance of intent to levy.

Release, Withdrawal and Re-Filing of Federal Tax Liens (2011 – New Start – #201130018)

Audit Objective: At the request of the IRS Oversight Board, determine if the IRS is effective and compliant with applicable laws and procedures related to the release, withdrawal and re-filing of Federal tax liens.

Disaster Relief Indicators (2011 – New Start – #201140034)

Audit Objective: Determine whether the IRS is properly identifying tax returns and taking appropriate actions on individuals claiming disaster relief on their tax returns.

¹³ 5 U.S.C. § 552.

FY 2011 Mandatory Review of Illegal Tax Protesters and Similar Designations (2010 – Work in Process - #201030044)

Audit Objective: Determine whether the IRS complied with RRA 98 § 3707 and internal IRS guidelines that prohibit IRS officers and employees from referring to taxpayers as illegal tax protesters or any similar designations.

Excess Collections (2010 – Work in Process - #201030013)

Audit Objective: Determine whether the IRS is properly managing and processing excess collections.

Third Party Usage of Income Verification Express Services (2010 – Work in Process - #201040043)

Audit Objective: At the suggestion of an outside source, evaluate regulations and security requirements for the handling of taxpayer information by Income Verification Express Services Consolidators.

Taxpayer Notification of Disclosures of Taxpayer Information
(2010 – Work in Process - #201040050)

Audit Objective: Determine if the IRS is making appropriate decisions to promptly and properly notify taxpayers of inadvertent disclosures of their tax information.

Leveraging Data to Improve Program Effectiveness and Reduce Costs

List of Planned Audits for Fiscal Year 2011

While the IRS has made some progress in improving performance and financial data for program and budget decisions, this area is still a major challenge. The IRS lacks a comprehensive, integrated system that provides accurate, relevant, and timely financial and operating data describing the performance measures, productivity, and associated costs of IRS programs.

Performance Measures for the Collection Program (2011 – New Start – #201130016)

Audit Objective: At the suggestion of the IRS Oversight Board, evaluate the effectiveness of the IRS’s Collection Performance Measures.

Efforts to Decrease Federal Real Estate Costs (2011 – New Start – #201110009)

Audit Objective: Determine whether the IRS has taken effective steps to meet the FY 2012 goals of the June 10, 2010 Presidential Memorandum on real estate savings.

Tracking of Financial Management Information Related to Health Care Legislation (2011 – New Start – #201110010)

Audit Objective: Determine whether the IRS has established effective controls to track financial management information related to health care reform.

Accuracy of Stakeholder Partnerships, Education and Communication’s Total Relationship Management (2011 – New Start – #201140013)

Audit Objective: Determine the accuracy of the Stakeholder Partnerships, Education and Communication’s Total Relationship Management Information System and if it is meeting the IRS’s expectations.

Interest Paid on Accounts Management Cases (2011 – New Start – #201140022)

Audit Objective: Determine if Accounts Management effectively processes priority cases to minimize interest payments and reduce taxpayer burden.

Controls Over Investigative Equipment-Followup (2010 – Work in Process - #201030008)

Audit Objective: Determine if controls are effective to ensure investigative equipment is safeguarded against waste and loss. We will also follow up on key recommendations from our prior audit to ensure the IRS implemented corrective action.¹⁴

FY 2010 Attestation Review-Office of National Drug Control Policy (2010 – Work in Process - #201010021)

Audit Objective: Perform an attestation review of the IRS's reporting of FY 2010 Office of National Drug Control Policy expenditures and related performance for the purpose of expressing a conclusion about the reliability of each assertion made in the Detailed Accounting Submission and Performance Summary Report.

Risk Management Activities (2010 – Work in Process - #201010020)

Audit Objective: At the suggestion of the IRS Oversight Board, determine whether the IRS has an efficient process to identify, manage, and mitigate enterprise-wide risks.

Controls Related to Support Services (2010 – Work in Process - #201010001)

Audit Objective: Determine whether the IRS is managing outsourced support services in a cost effective manner and minimizing authorized access to Federal Government assets and sensitive information associated with the program.

FY 2010 Federal Financial Management Improvement Act Remediation Plan (2010 – Work in Process - #201010022)

Audit Objective: Report to the Congress, as required by the Federal Financial Management Improvement Act (FFMIA)¹⁵, any instances and reasons for missed intermediate target dates established in the IRS's FY 2010 remediation plan and determine whether the IRS has taken adequate corrective actions on prior audit findings related to the FFMIA remediation plan.¹⁶

¹⁴ Prior TIGTA Report, Ref. No. 2005-10-163, *Weaknesses in the Criminal Investigation Function's Controls Leave Investigative Equipment Vulnerable to Loss* (Sept. 2005).

¹⁵ Pub. L. No. 104-208, 110 Stat. 3009.

¹⁶ Prior TIGTA Report, Ref. No. 2010-10-065, *Measurable Progress Has Been Made in Addressing Federal Financial Management Improvement Act Noncompliance; However, Significant Challenges Remain* (June 2010).

Reducing Publishing and Mail Costs for Businesses and Non-Profits (2010 – Work in Process - #201040019)

Audit Objective: At the suggestion of the IRS, determine whether the IRS has adequate controls over tax forms and publications to ensure its offices and functions are following laws and regulations and are using the most cost effective methods to process and distribute them to businesses and non-profits.

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American Recovery and Reinvestment Act of 2009 List of Planned Audits for Fiscal Year 2011

The audits listed here are all related to the Recovery Act.¹

Costs Incurred for Procurements Funded by the American Recovery and Reinvestment Act of 2009 (2011 – New Start – #201110105)

Audit Objective: Determine whether the receipt and acceptance process on IRS Recovery Act planned/funded procurements was performed properly and whether all invoices presented for payment were for allowable costs and were appropriately supported with documentation.

Program Controls to Effectively Process the American Recovery and Reinvestment Act of 2009 Build America Bonds, Recovery Zone Bonds, and Qualified Energy Conservation Bonds (2010 – Work in Process - #201030133)

Audit Objective: Determine whether the IRS has adequately planned for the processing of three Recovery Act bonds for the bond holders to ensure they provide accurate reporting.

The Tax Exempt Bonds Office's Build America Bond Compliance Check Process (2010 – Work in Process - #201010111)

Audit Objective: Evaluate the Tax Exempt Bonds office's use of compliance checks to identify indications of a high risk of noncompliance for Build America Bonds, and evaluate the Tax Exempt Bonds office's plans to address the high-risk indicators.

Post-Award Compliance of Procurement Actions Funded by the American Recovery and Reinvestment Act of 2009 (2010 – Work in Process - #201010114)

Audit Objective: Determine whether the IRS has complied with Recovery Act requirements and implementing guidance in planning and awarding Recovery Act funded procurement actions.

¹ American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115.

Implementation and Taxpayer Notification of the Making Work Pay Credit-Phase 2 (2010 – Work in Process - #201040139)

Audit Objective: Assess the IRS's efforts to implement the Making Work Pay Credit and to evaluate its impact on taxpayers.

Processing of Amended Returns Claiming the First-Time Homebuyers Credit (2010 – Work in Process - #201040140)

Audit Objective: Determine whether the IRS has controls in place to ensure claims for the First-Time Homebuyer Credit claimed on amended tax returns are appropriately processed.

First-Time Homebuyer Credit (Erroneous Claims) Phase 3 (2010 – Work in Process - #201040141)

Audit Objective: Determine whether the IRS has controls in place that effectively identify erroneous claims for the First-Time Homebuyer Credit.

Controls Over Erroneous Claims of the Plug-In Electric Vehicle Credit (2010 – Work in Process - #201040131)

Audit Objective: Determine whether the IRS's controls identify erroneous claims for the Plug-In Electric Vehicle Credit and prevent fraudulent claims of the Credit. Also assess whether forms, instructions, and taxpayer education efforts are adequate.

Deductions Associated with the Purchase of Qualified Motor Vehicles (2010 – Work in Process - #201040108)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous qualified motor vehicle deductions.

Erroneous Claims for the American Opportunity Tax Credit (2010 – Work in Process - #201040147)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous American Opportunity Tax Credit claims.

Residential Energy Credits (2010 – Work in Process - #201040109)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous Residential Energy Credits.

***Process to Ensure Repayment of the First-Time Homebuyer
Credit*** (2010 – Work in Process - #201040107)

Audit Objective: Assess the IRS's efforts to ensure accurate and timely repayment of the First-Time Homebuyer Credit.

Enforcement Actions - First-Time Homebuyer Credit (2010 – Work
in Process - #201040151)

Audit Objective: Determine if the IRS Compliance functions will be able to adequately address questionable claims for the First-Time Homebuyer Credit.

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Mandatory Audits

List of Planned Audits for Fiscal Year 2011

Each year, TIGTA performs audits on the mandatory coverage imposed by RRA 98¹ and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits. Portions of the Recovery Act will also require TIGTA to perform reviews. These mandatory audits are listed here.

FY 2011 Mandatory Review of Liens (2011 – New Start - #201130001)

Audit Objective: Determine if liens issued by the IRS comply with legal provisions set forth in the I.R.C. and related guidance in the Federal Tax Lien Handbook.

FY 2011 Mandatory Review of Seizures (2011 – New Start - #201130002)

Audit Objective: Determine whether seizures conducted by the IRS complied with legal provisions set forth in I.R.C. §§ 6330 through 6344 and with the IRS's own internal procedures.

FY 2011 Mandatory Review of Levies (2011 – New Start - #201130003)

Audit Objective: Determine whether the IRS has complied with 26 U.S.C. § 6330, Notice and Opportunity for Hearing Before Levy.

FY 2011 Mandatory Review of Assessment Statute Extension

Dates (2011 – New Start – #201130008)

Audit Objective: Determine whether the IRS is complying with the I.R.C § 6501(c)(4)(B), which requires the IRS to provide notice to taxpayers of their right to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or to specific issues.

FY 2011 Mandatory Review of Disclosure of Collection Activities on Joint Returns (2011 – New Start – #201130009)

Audit Objective: Determine if the IRS is complying with the provisions of the I.R.C. § 6103(e)(8) as related to the disclosure of collection activities to joint filers.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

FY 2011 Mandatory Review of Restrictions on Directly Contacting Taxpayers (2011 – New Start – #201130004)

Audit Objective: Determine if the IRS is in compliance with legal guidelines addressing the direct contact of taxpayers and their representatives set forth in the I.R.C. § 7521(b)(2) and (c).

FY 2011 Mandatory Review of the Compliance with the Freedom of Information Act (2011 – New Start – #201130010)

Audit Objective: Determine whether the IRS has adequate and effective policies and procedures to ensure compliance with the Freedom of Information Act² and implementing regulations.

FY 2011 Mandatory Review of Compliance with Restrictions on the Use of Enforcement Statistics (2011 – New Start – #201130011)

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

FY 2010 Mandatory Review of Fair Tax Collection Practices Act Violations (2011 – New Start – #201110013)

Audit Objective: Obtain information on any IRS administrative or civil actions resulting from violations of Fair Tax Collection Practices.

FY 2011 Mandatory Review of Collection Due Process (2011 – New Start – #201110008)

Audit Objective: Determine if the IRS complied with 26 U.S.C. §§ 6320(b) and (c) and 6330(b) and (c) when taxpayers exercised their right to appeal the filing of a Notice of Federal Tax Lien or issuance of intent to levy.

2011 Federal Information Security Management Act (Unclassified Systems) (2011 – New Start – #201120006)

Audit Objective: Determine the progress made by the IRS in meeting the requirements of the 2011 FISMA mandatory review of the IRS's unclassified information technology system security program.

² 5 U.S.C. § 552.

2011 Federal Information Security Management Act (National Security Systems - Non-Intelligence) (2011 – New Start – #201120007)

Audit Objective: Determine the progress made by the IRS in meeting the requirements of the 2011 FISMA mandatory review of the IRS’s National Security Systems (non-intelligence) program.

2011 Annual Assessment of the Information Technology Program (2011 – New Start – #201120003)

Audit Objective: Assess the progress of the IRS’s Information Technology Program (including Modernization, Security, and Operations) for FY 2011.

Costs Incurred for Procurements Funded by the American Recovery and Reinvestment Act of 2009 (2011 – New Start – #201110105)

Audit Objective: Determine whether the receipt and acceptance process on IRS Recovery Act planned/funded procurements was performed properly and whether all invoices presented for payment were for allowable costs and were appropriately supported with documentation.

FY 2011 Mandatory Review of Illegal Tax Protesters and Similar Designations (2010 – Work in Process - #201030044)

Audit Objective: Determine whether the IRS complied with RRA 98 § 3707 and internal IRS guidelines that prohibit IRS officers and employees from referring to taxpayers as illegal tax protesters or any similar designations.

Program Controls to Effectively Process the American Recovery and Reinvestment Act of 2009 Build America Bonds, Recovery Zone Bonds, and Qualified Energy Conservation Bonds (2010 – Work in Process - #201030133)

Audit Objective: Determine whether the IRS has adequately planned for the processing of three Recovery Act bonds for the bond holders to ensure they provide accurate reporting.

The Tax Exempt Bonds Office’s Build America Bond Compliance Check Process (2010 – Work in Process - #201010111)

Audit Objective: Evaluate the Tax Exempt Bonds office’s use of compliance checks to identify indications of a high risk of noncompliance for Build America Bonds, and evaluate the Tax Exempt Bonds office’s plans to address the high-risk indicators.

Post-Award Compliance of Procurement Actions Funded by the American Recovery and Reinvestment Act of 2009 (2010 – Work in Process - #201010114)

Audit Objective: Determine whether the IRS has complied with Recovery Act requirements and implementing guidance in planning and awarding Recovery Act funded procurement actions.

FY 2010 Attestation Review-Office of National Drug Control Policy (2010 – Work in Process - #201010021)

Audit Objective: Perform an attestation review of the IRS's reporting of FY 2010 Office of National Drug Control Policy expenditures and related performance for the purpose of expressing a conclusion about the reliability of each assertion made in the Detailed Accounting Submission and Performance Summary Report.

FY 2010 Federal Financial Management Improvement Act Remediation Plan (2010 – Work in Process - #201010022)

Audit Objective: Report to the Congress, as required by the FFMIA, any instances and reasons for missed intermediate target dates established in the IRS's FY 2010 remediation plan and to determine whether the IRS has taken adequate corrective actions on prior audit findings related to the FFMIA remediation plan.³

Secure Electronic Mail Project (2010 – Work in Process - #201020021)

Audit Objective: At the suggestion of the Department of the Treasury, determine whether the use of email messages to taxpayers adequately protects taxpayers' data, sufficiently guards against email threats into the IRS network, and ensures email practices are compliant with Federal regulations and agency policies and procedures.

Access Controls over the Automated Insolvency System (2010 – Work in Process - #201020022)

Audit Objective: At the suggestion of the IRS, determine whether the IRS has implemented access controls for the Automated Insolvency System to protect taxpayers' personal data and to ensure the Government's interest is protected when taxpayers file for bankruptcy.

³ Prior TIGTA Report, Ref. No. 2010-10-065, *Measurable Progress Has Been Made in Addressing Federal Financial Management Improvement Act Noncompliance; However, Significant Challenges Remain* (June 2010).

***2010 Federal Information Security Management Act review
(Unclassified Systems) (2010 – Work in Process - #201020010)***

Audit Objective: Determine the progress made by the IRS in meeting the responsibilities established by the National Institute of Standards and Technology and the Office of Management and Budget during the 2010 FISMA mandatory review of the IRS's unclassified information technology system security program.

Non-Mainframe Database Security (2010 – Work in Process - #201020014)

Audit Objective: Determine whether the IRS databases executing in its non-mainframe production environment are adequately configured to properly secure taxpayer data.

Assessment of Ongoing Disaster Recovery Efforts (2010 – Work in Process - #201020024)

Audit Objective: At the request of the IRS, determine whether ongoing efforts on the Disaster Recovery Program will allow the IRS to effectively and timely restore its information infrastructure and applications that support its critical business processes.

Customer Account Data Engine-2 Prototype Activities (2010 – Work in Process - #201020004)

Audit Objective: At the request of the IRS Oversight Board, determine the effectiveness of the Customer Account Data Engine-2 Program prototype efforts, including applicable security provisions, designed to validate Transition State 1 development plans.

***Modernization and Information Technology Services
Applications Development Quality Assurance Process
Assessment (2010 – Work in Process - #201020026)***

Audit Objective: At the request of the IRS, determine the adequacy of the Applications Development organization's quality assurance process to ensure that projects implement a systematic, planned set of activities that conform to functional, technical, and managerial requirements.

***Customer Account Data Engine-2 Program Office Efforts to
Develop Transition State 1 Project Requirements (2010 – Work in Process - #201020025)***

Audit Objective: Determine the effectiveness of the processes followed and completeness of efforts to develop the requirements for the Daily Processing, Database Implementation, Integration, and Infrastructure projects.

Modernization and Information Technology Services Sustaining Infrastructure Program (2009 – Work in Process - #200920026)

Audit Objective: At the suggestion of the IRS, determine the effectiveness of the IRS's efforts to address the critical issue of sustaining the IRS's information technology infrastructure.

Service Operations Command Center (2010 – Work in Process - #201020006)

Audit Objective: Determine whether the Service Operations Command Center organization has implemented and is following Information Technology Infrastructure Library best practices to ensure delivery of Enterprise Operations products and services.

Information Technology Maintenance Contracts (2010 – Work in Process - #201020027)

Audit Objective: Determine whether information technology hardware and software maintenance contracts are effectively managed.

Implementation and Taxpayer Notification of the Making Work Pay Credit-Phase 2 (2010 – Work in Process - #201040139)

Audit Objective: Assess the IRS's efforts to implement the Making Work Pay Credit and to evaluate its impact on taxpayers.

Processing of Amended Returns Claiming the First-Time Homebuyer Credit (2010 – Work in Process - #201040140)

Audit Objective: Determine whether the IRS has controls in place to ensure claims for the First-Time Homebuyer Credit claimed on amended tax returns are appropriately processed.

First-Time Homebuyer Credit (Erroneous Claims) Phase 3 (2010 – Work in Process - #201040141)

Audit Objective: Determine whether the IRS has controls in place that effectively identify erroneous claims for the First-Time Homebuyer Credit.

Controls Over Erroneous Claims of the Plug-In Electric Vehicle Credit (2010 – Work in Process - #201040131)

Audit Objective: Determine whether the IRS's controls identify erroneous claims for the Plug-In Electric Vehicle Credit and prevent fraudulent claims of the Credit. Also assess whether forms, instructions, and taxpayer education efforts are adequate.

Efforts to Reduce Improper Earned Income Tax Credit Payments (2010 – Work in Process - #201040044)

Audit Objective: Assess the IRS's efforts to implement Executive Order 13520.

Assessment of Prisoner Fraud (2010 – Work in Process - #201040010)

Audit Objective: Assess the IRS's efforts to reduce prisoner fraud including an assessment of the IRS's compliance with the Inmate Tax Fraud Prevention Act.⁴

Deductions Associated with the Purchase of Qualified Motor Vehicles (2010 – Work in Process - #201040108)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous qualified motor vehicle deductions.

Erroneous Claims for the American Opportunity Tax Credit (2010 – Work in Process - #201040147)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous American Opportunity Tax Credit claims.

Residential Energy Credits (2010 – Work in Process - #201040109)

Audit Objective: Assess the effectiveness of the IRS's process to identify erroneous Residential Energy Credits.

Process to Ensure Repayment of the First-Time Homebuyer Credit (2010 – Work in Process - #201040107)

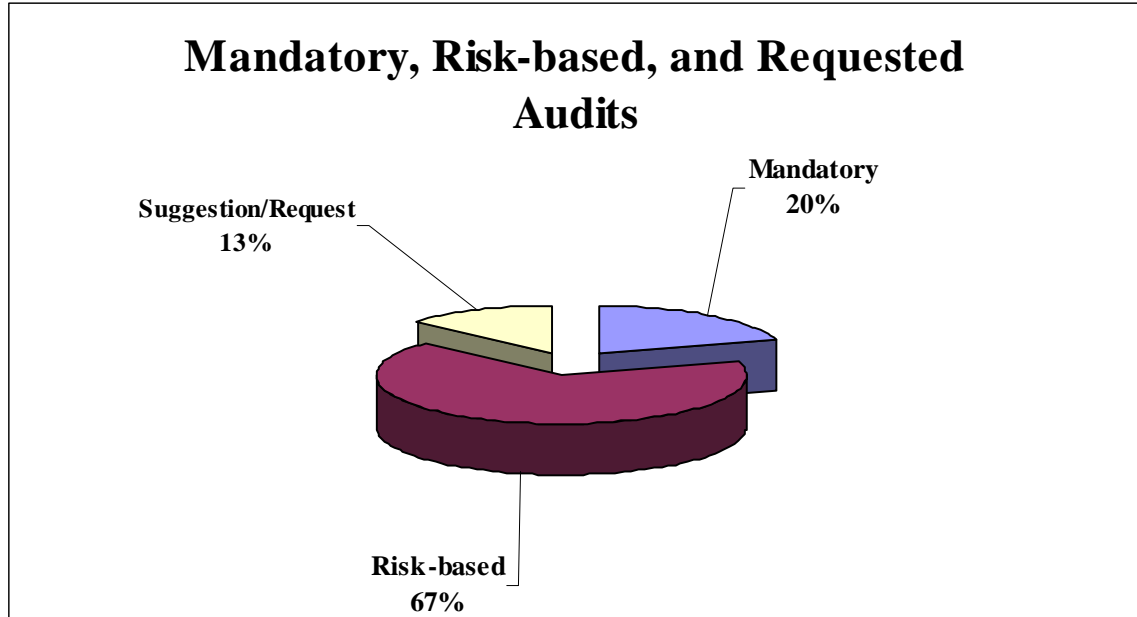
Audit Objective: Assess the IRS's efforts to ensure accurate and timely repayment of the First-Time Homebuyer Credit.

⁴ Pub L. No. 110-428, 122 Stat. 4839.

Enforcement Actions - First-Time Homebuyer Credit (2010 – Work
in Process - #201040151)

Audit Objective: Determine if the IRS Compliance functions will be able to adequately address questionable claims for the First-Time Homebuyer Credit.

Office of Audit's Fiscal Year 2011 Staff Day Allocation by Mandatory, Risk-based, and Requested Audits



Note: Fiscal Year (FY) 2011 staff days are included for audits that were started in FY 2010 with planned completion dates in FY 2011. Totals might not equal 100 percent due to rounding.

DEPARTMENT OF THE TREASURY

Office of the Inspector General for Tax Administration

1125 15TH Street, NW, Room 700A
Washington, D.C. 20005



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