

**The New Process for Managing Requests for  
Tax Records During Examinations of Large  
Businesses Can Reduce Taxpayer Burden if  
Implemented Consistently**

**August 2003**

**Reference Number: 2003-30-152**

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



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

August 6, 2003

MEMORANDUM FOR COMMISSIONER, LARGE AND MID-SIZE BUSINESS  
DIVISION

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Assistant Inspector General for Audit (Small Business and  
Corporate Programs)

SUBJECT: Final Audit Report – The New Process for Managing Requests  
for Tax Records During Examinations of Large Businesses Can  
Reduce Taxpayer Burden if Implemented Consistently  
(Audit # 200230052)

This report presents the results of our review of the Information Document Request (IDR) Management Process used in Industry Case (IC) examinations by the Large and Mid-Size Business (LMSB) Division. The overall objectives of this review were to determine what impact the IDR Management Process has on the length and burdens of IC examinations, and the status of ongoing changes to improve the IDR Management Process.

In summary, the Internal Revenue Service (IRS) uses IDRs during examinations to request and obtain tax records from taxpayers. However, corporate taxpayers have long criticized the IDR Management Process for unnecessarily adding to the adversarial nature inherent in examinations by creating barriers to open communication that can lead to delays in resolving issues and wasting resources. We found that the new IDR Management Process has key elements to address these burden and cost issues by engaging both taxpayers and examiners in accepting responsibility for ensuring IDRs are focused, not overly broad in scope, and responded to in a timely manner.

By emphasizing timely IDR responses, the new IDR Management Process also offers opportunities to shorten lengthy examinations and thereby save examination staff hours so they can be redirected to address other high-risk compliance areas. Our analysis of 631 IDRs from 50 closed IC examinations showed that shorter IDR response times generally resulted in shorter examinations.

While the new IDR Management Process has the potential to reduce taxpayer burden, its success could be hampered by inconsistent implementation. Our on-site visits to 16 IC examination teams found that none of the teams were using all required procedures. However, since the IDR Management Process guidelines provide managers broad discretion to bypass required procedures on a “case by case” basis without an approval process, it may be very difficult to determine if the decisions to bypass the new procedures were appropriate.

At the quality control level, there are areas that could be strengthened to enhance management’s ability to identify problems and take corrective actions for improving the IDR Management Process. Unlike team managers over Coordinated Industry Cases (CIC)<sup>1</sup> who are required to report quarterly on IDR delinquencies to the LMSB Division’s Office of Performance, Quality Assurance, and Audit Assistance (PQA), team managers over IC examinations are exempted from this reporting. In addition, the LMSB Quality Measurement System (LQMS), which sets forth standards for examinations, does not evaluate whether examiners are considering and using the IRS’ automated data systems to determine if required returns, such as employment tax returns, had been filed in lieu of having taxpayers provide the documents. Consequently, opportunities to identify problems, take actions to resolve tax issues faster, and further reduce taxpayer burden may be missed.

To take full advantage of the opportunities the new IDR Management Process offers for reducing taxpayer burden and shortening examination cycle times,<sup>2</sup> we recommended that LMSB Division management revise the IDR Management Process guidelines to (1) show examples of situations where it may be acceptable for examination teams to bypass required procedures, (2) require examination teams to obtain written approval from a mid-level manager or an executive to bypass procedures, and (3) require team managers over IC examinations to report to PQA on delinquent IDRs. In addition, the LQMS should be used to determine if examiners are considering and using the IRS’ automated information systems to obtain taxpayer returns and other account information.

#### Management’s Response:

The Commissioner, LMSB Division, agreed with our findings and was generally responsive to our recommendations. The Commissioner, LMSB Division, will revise guidelines to include an outline of the general procedures for requesting information from taxpayers, the delinquent IDR process, and clear guidelines stating that the general and delinquent IDR processes are applicable to both IC and CIC examinations. The Commissioner will also require that frontline managers document examination case files if they permit their examiners to depart from those steps in the IDR Management Process that involve securing delinquent IDRs. In lieu of manually preparing delinquent

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<sup>1</sup> Taxpayers are divided into two categories, CICs and ICs. CICs generally involve the nation’s largest taxpayers and are examined by teams of examiners. ICs are generally assigned to one examiner.

<sup>2</sup> Examination cycle time is measured from the day the examination of a tax return is started until it is closed. Overall cycle time is measured from the date the tax return is filed by the taxpayer until the examination is closed.

IDR reports for PQA, the Commissioner, LMSB Division, responded that a new automated system is under development and will generate the required delinquency reports for use by PQA. The Commissioner agreed that internal electronic sources can be relied upon to perform certain examination activities. However, the Commissioner believes that the LQMS and current guidelines are sufficient for monitoring and encouraging examiners' use of internal information sources in performing examinations. Management's complete response to the draft report is included as Appendix IV.

Office of Audit Comment:

We continue to believe that the LQMS should be modified to include evaluations of whether examiners are considering and using the IRS' automated systems to ensure required returns were filed. However, we do not intend to elevate the disagreement to the Department of the Treasury for resolution. As explained in the report text (see pages 4 and 7), examiners routinely completed these filing checks by requesting copies of previously filed tax returns from taxpayers, thereby missing opportunities to reduce taxpayer burden.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Parker F. Pearson, Director (Small Business Compliance), at (410) 962-9637.

**The New Process for Managing Requests for Tax Records During Examinations  
of Large Businesses Can Reduce Taxpayer Burden if Implemented Consistently**

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## The New Process for Managing Requests for Tax Records During Examinations of Large Businesses Can Reduce Taxpayer Burden if Implemented Consistently

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### Background

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The Internal Revenue Service (IRS) has placed a major emphasis on reducing taxpayer burden and shortening examination cycle time, a critically important improvement area for its Large and Mid-Size Business (LMSB) Division.<sup>1</sup> In turn, the LMSB Division addresses this tax administration priority in its Comprehensive Issue Management Strategic Initiative. This major initiative includes the Information Document Request (IDR) Management Process and other business process improvement initiatives linked together by the common goal of making taxpayer interactions less difficult, time consuming, costly, and contentious.

The IRS uses IDRs during examinations to request and obtain information from taxpayers. Tax records supporting the income tax return information are needed to make examination determinations. However, taxpayers have long criticized IDRs for unnecessarily adding to the adversarial nature inherent in examinations by creating barriers to open communication, causing delays in resolving issues, and wasting resources.

A formal, structured process to request and secure information from the taxpayer has been established. The process emphasizes timely responses to improve cycle time and currency of cases, while at the same time, focuses on early issue resolution. As part of the IRS' continuing effort to provide top quality service to the nation's largest business taxpayers, the LMSB Division implemented the IDR Management Process, which is required to be used in new examination starts after June 3, 2002, for Coordinated Industry Cases (CIC) and Industry Cases (IC).<sup>2</sup> However, this process does not preclude the examination team from using judgment on a "case by case" basis. The IDR Management Process was implemented under the direction of the LMSB Division's Industry Director for Communications, Technology and Media. The process

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<sup>1</sup> The LMSB Division serves corporations, sub-chapter S corporations, and partnerships with assets greater than \$10 million.

<sup>2</sup> Taxpayers are divided into two categories, CICs and ICs. CICs generally involve the nation's largest taxpayers and are examined by teams of examiners. ICs are generally assigned to one examiner.

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follows “best practices” developed, but not fully implemented, in the IRS’ Coordinated Examination Program<sup>3</sup> during the early 1990s.

Our review was conducted in accordance with *Government Auditing Standards* between October 2002 and February 2003. To meet our objectives, we relied on the IRS’ databases and internal management reports. We did not establish the reliability of this data because extensive data validation tests were outside the scope of this audit and would have required extensive resources and time.

We performed on-site work in the LMSB Division Headquarters in Washington, D.C., and IRS offices in the Los Angeles, California; Phoenix, Arizona; Baltimore, Maryland; Philadelphia, Pennsylvania; and Fort Lauderdale, Florida metropolitan areas. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### The Information Document Request Management Process Benefits Taxpayers and the Internal Revenue Service

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From both the taxpayer’s and the IRS’ perspective, IDRs are a long-standing problem. In the mid 1990s, both taxpayers and the IRS identified IDRs as a factor in increasing the costs and burdens associated with examinations. More recently, the IRS’ Fiscal Year (FY) 2002 Customer Satisfaction Survey National Report quoted taxpayers as saying:

- *“The process needs to be shortened; it takes too long. After responding to IDRs with the requested information, additional IDRs were generated, causing additional time and labor.”*
- *“Things get bogged down as far as retrieving IRS records and this slows the whole process down, which then increases the cost of the audit to the taxpayer.”*

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<sup>3</sup> The Coordinated Examination Program is now referred to as the CIC Program. The CIC Program consists of about 1,100 taxpayers (primarily corporations), of which approximately 900 are under examination at any given time.

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- *“Streamline how much they question. Narrow the focus. Don’t make so many information requests.”*
- *“IDRs need to be more focused; they tend to be too broad and the data requests were unreasonable.”*
- *“Minimize the amount of extraneous information that is requested.”*

To validate the shortcomings in IDRs and the need for a new set of required procedures to manage the process, we reviewed a sample of 50 IC closed examinations out of approximately 1,735 cases that were closed in FY 2002 prior to implementing the new IDR Management Process. These 50 cases represent closures from 46 different IRS offices across the nation and contained 631 IDRs that were issued after the examiners’ initial meeting with taxpayers.

Although our sample results cannot be projected,<sup>4</sup> the results clearly indicate that there are opportunities to reduce the burdens and response times of IDRs. Of the 631 IDRs analyzed, approximately 57 percent were responded to within 30 days. However, in 23 percent of the IDRs analyzed, 46 or more days elapsed before responses were received. We also found that:

- The IDR monitoring and control process had weaknesses (45 of 50 cases). Important dates and other techniques for monitoring and controlling IDRs were not documented in case files. The missing information included IDR issuance, response and received dates, along with IDR control numbers and control logs. When monitoring and control information is missing, delays in receiving information from the taxpayer can occur.
- Case file documentation controls were weak since there was no evidence that the contents of IDRs were discussed with taxpayers prior to or at the time of issuance (33 of 50 cases). These discussions can

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<sup>4</sup> We did not use statistically valid sampling techniques because to do so would have required an extensive amount of time and resources.

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avoid IDRs that are unfocused, too broad, or perceived by taxpayers to be unreasonable.

- IDRs were routinely used to ask for previously filed tax returns, such as employment tax returns, that could have been obtained through the IRS' automated data systems (42 of 50 cases), adding additional burden to the taxpayer.

Figure 1 shows key elements in the IDR Management Process that are designed to address criticisms cited in IRS' FY 2002 Customer Satisfaction Survey National Report and control weaknesses identified in our case reviews.

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<b>Figure 1: IDR Management Process</b>	
<b>Key Elements</b>	<b>Expected Benefits</b>
Examiners and taxpayers collaborate and mutually agree on IDR response times. The agreement is then documented in a Memorandum of Understanding.	<ul style="list-style-type: none"> <li>• Establishes clear expectations.</li> <li>• Provides for timely responses.</li> <li>• Promotes cooperation and earlier issue resolution.</li> </ul>
Examiners and taxpayers discuss the tax issues and content of IDRs prior to or at the time information is requested. The mutual understanding of records that will be provided is then documented in examination case files.	<ul style="list-style-type: none"> <li>• Improves the quality of documentation received for more sound issue development.</li> <li>• Helps avoid IDRs that are unfocused and overly broad.</li> <li>• Provides for more open and meaningful communications.</li> </ul>
Alternative sources for obtaining needed information, such as the IRS' automated data systems, are used.	<ul style="list-style-type: none"> <li>• Reduces the number of IDRs requiring responses.</li> <li>• Minimizes the amount of information requested.</li> </ul>
Managerial involvement required in securing delinquent information.	<ul style="list-style-type: none"> <li>• Takes advantage of managers' experience so conflicts and issues can be resolved faster.</li> </ul>
Quarterly reporting on delinquent IDRs for analysis by the Office of Performance, Quality and Innovation.	<ul style="list-style-type: none"> <li>• Provides data to identify problems, plan corrective action, and improve future performance.</li> </ul>

*Source: Treasury Inspector General for Tax Administration's (TIGTA) analysis of the IDR Management Process User Guide.*

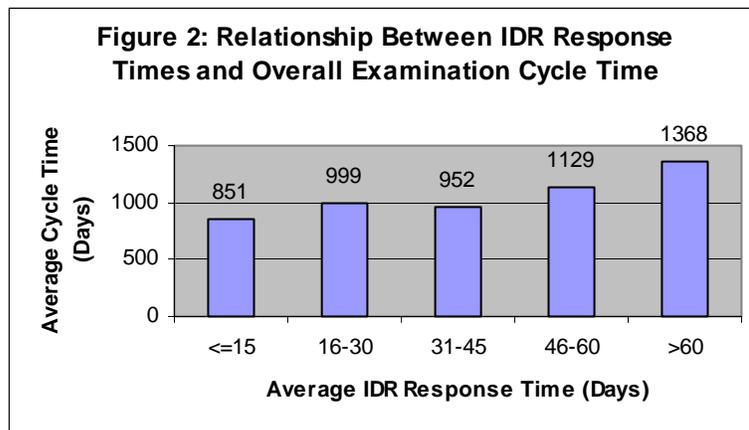
Key elements in Figure 1 indicate that the IDR Management Process clearly places the responsibility for improving the timeliness of IDR responses on the collaboration between the examiner and taxpayer. This is important because improving IDR response time could enable the LMSB

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Division to better use its resources by shortening the length of examinations.

As illustrated in Figure 2, our regression analysis<sup>5</sup> of the 631 IDRs from 50 IC closed examinations shows that shorter IDR response times generally result in shorter examinations.



Source: TIGTA's review of 50 IC corporate examinations.

Figure 2 shows that when the average IDR response time in a case was 15 days or less, the examination was completed within the LMSB Division's FY 2003 cycle time goal of 31 months. As examinations become shorter, the Division will have opportunities to save staff hours and redirect these resources to address other high-risk compliance areas.

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### Additional Steps Are Needed to Better Integrate the Information Document Request Management Process Into Examinations

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While the IDR Management Process has the potential to resolve the longstanding IDR problems, its success could be hampered by inconsistent implementation of key elements. To ensure the process becomes fully integrated into IC examinations, we believe additional steps need to be taken at both the examiner level and quality control level.

We visited 16 examination teams and reviewed 23 open examinations that were started after the process was required to be used in all IC examinations. We found that while team managers and examiners were aware of the new

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<sup>5</sup> Regression analysis is used to estimate quantitative relationships between dependent variables and one or more independent causal variables from actual data.

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procedures and had access to the IDR Management user guidelines, they were not consistently using key elements of the process. Specifically:

- Memoranda of Understanding (MOU) were not issued nor did case files contain documentation showing that the IDR Management Process and/or IDR response times were discussed with taxpayers.
- IDRs that were issued after the initial meetings with taxpayers were not limited to one tax issue to better ensure the documents were focused, clear, and concise.
- Examiners were not always considering and using the IRS' automated data systems, such as the Integrated Data Retrieval System,<sup>6</sup> to determine if required returns were filed. Instead, examiners routinely requested from taxpayers employment tax and other types of returns that had been previously submitted to the IRS.

A properly designed and operating internal control system helps ensure that management objectives are achieved. At the same time, the internal control system is designed to obtain the data for identifying problems and taking corrective actions to improve performance.

The LMSB Division's quality control system for the IDR Management Process consists of two components. The Division's Office of Performance, Quality Assurance and Audit Assistance (PQA) requires the submission of quarterly reports on delinquent IDRs in CICs. In addition, PQA uses the LMSB Quality Measurement System (LQMS) to evaluate samples of open and closed examinations to ensure that examiners met auditing standards. However, there are areas in each of the control components that could strengthen management's ability to identify problems and take actions to improve the process.

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<sup>6</sup> IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

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While team managers of CIC examinations are required to report quarterly on IDR delinquencies to PQA, team managers over IC examinations are exempted from this reporting even though significantly more IC examinations are conducted than CIC examinations. In addition, the LQMS, which sets forth standards for examinations, does not evaluate whether examiners are considering and using the IRS' automated data systems to determine if required returns, such as employment tax returns, had been filed in lieu of having taxpayers provide the documents. Consequently, there may be missed opportunities to identify and resolve tax issues quickly to further reduce taxpayer burden.

Our discussions with team managers and examiners indicated the inconsistencies at the examination team level were caused by giving examination teams broad discretion in the guidelines to bypass key elements in the IDR Management Process on a "case by case" basis. However, the current guidance on the IDR Management Process does not contain (1) examples of instances where it is acceptable for examination teams to bypass required procedures, (2) a requirement for examination teams to obtain written approval from a mid-level manager or an executive to bypass procedures, and (3) a requirement for IC team managers to report delinquent IDRs to PQA. When key elements can be by-passed without higher-level management approval, it is very difficult to determine if these decisions were appropriate.

### **Recommendations**

We recommend that the LMSB Division's Industry Director, Communication Technology, and Media, coordinate with the Director, PQA, to incorporate the following revisions in the IDR Management Process guidelines and the LQMS:

1. Provide examples in IDR Management Process guidelines of situations where it may be acceptable for examination teams to bypass some or all of the IDR Management processes. The examples should include instances where it may be acceptable for

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examination teams to request documents from taxpayers that were previously submitted to the IRS in lieu of using the IRS' automated data systems to obtain the documents.

Management's Response: The Commissioner, LMSB Division, will revise guidelines to include an outline of the general procedures for requesting information from taxpayers, the delinquent IDR process, and clear guidelines stating that the general and delinquent IDR processes are applicable to both IC and CIC examinations.

2. Revise IDR Management Process guidelines to require written approval from mid-level managers or an executive to be included in case files before examination teams decide to bypass some or all of the IDR Management processes.

Management's Response: The LMSB Division will require frontline managers to document the Examining Officer's Activity Record, which is part of the examination case file, if they permit their examiners to depart from those steps in the IDR Management Process that involve securing delinquent IDRs.

3. Revise IDR Management Process guidelines to include IC examinations in mandatory reporting to PQA on delinquent IDRs.

Management's Response: In lieu of manually preparing delinquent IDR reports for PQA, a new automated system is under development and will generate the required delinquency reports for use by PQA.

4. Modify the LQMS to include evaluations of whether examiners are considering and using the IRS' automated systems to obtain copies of employment tax and other types of returns needed for examinations.

Management's Response: The Commissioner, LMSB Division, agreed that internal electronic

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sources can be relied upon to perform certain examination activities. However, the LMSB Division believes that the LQMS and current guidelines are sufficient for monitoring and encouraging examiners' use of internal information sources in performing examinations.

Office of Audit Comment: We continue to believe that the LQMS should be modified to include evaluations of whether examiners are considering and using the IRS' automated systems to ensure required returns were filed. However, we do not intend to elevate the disagreement to the Department of the Treasury for resolution. As explained on pages 4 and 7, examiners routinely completed these filing checks by requesting copies of previously filed tax returns from taxpayers, thereby missing opportunities to reduce taxpayer burden.

**Detailed Objectives, Scope, and Methodology**

The objectives of this review were to determine what impact the new Information Document Request (IDR) Management Process has on the length and burdens of Industry Case (IC) examinations, and the status of ongoing changes to improve the IDR Management Process. To meet our objectives, we relied on the Internal Revenue Service's (IRS) databases and internal management reports. We did not establish the reliability of this data because extensive data validation tests were outside the scope of this audit and would have required extensive resources and time. Our specific audit tests included the following.

- I. Reviewed the IDR Management Process user guide to identify the goals, key elements, requirements, potential benefits, and potential barriers of the Process.
- II. Interviewed IRS officials who are either involved with or affected by the IDR Management Process to obtain their opinions about how the process may reduce taxpayer burden and shorten examinations.
- III. Evaluated a judgmental sample of 50 ICs out of 1,735 corporate examinations that were closed in Fiscal Year (FY) 2002 prior to the implementation of the IDR Management Process to affirm the shortcomings in IDRs and the need for procedures to manage the Process. Judgmental sampling was used because a statistical sample to project results would have required extensive resources and time.
- IV. Analyzed 631 IDRs in our sample cases that were issued after examiners met with taxpayers to identify potential opportunities to reduce taxpayer burden, response times of IDRs, and lengths of examinations.
- V. Evaluated a judgmental sample of 23 open IC corporate examinations out of 228 IC examinations that were started after the IDR Management Process was implemented to assess how effectively the process was being integrated into IC examinations. Judgmental sampling was used because a statistical sample to project results would have required extensive resources and time.
- VI. Analyzed FYs 2001 and 2002 Examination Program Monitoring Table 37 and the Audit Information Management System to assess trends in the length of Large and Mid-Size Business Division examinations.
- VII. Verified whether a quality control system had been established over the IDR Management Process so that management could identify problems, plan corrective actions, and improve future performance.

**Major Contributors to This Report**

Parker F. Pearson Director  
Philip Shropshire, Director  
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Ali Vaezazizi, Auditor

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**Appendix III**

**Report Distribution List**

Commissioner N:C  
Deputy Commissioner for Services and Enforcement N:SE  
Acting Deputy Commissioner, Large and Mid-Size Business Division LM  
Director, Communications, Technology, and Media Industry, Large and Mid-Size Business  
Division LM:CTM  
Director, Performance, Quality Assurance and Audit Assistance LM:PQA  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:AR:M  
Audit Liaison: Commissioner, Large and Mid-Size Business Division LM:CL

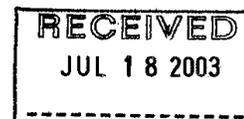
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Appendix IV

Management's Response to the Draft Report



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



July 14, 2003

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM:

*Frank*  
Deborah M. Nolan  
Commissioner, Large and Mid-Size Business Division

SUBJECT:

Draft Audit Report – The New Process for Managing Requests For Tax Records During Examinations of Large Businesses Can Reduce Taxpayer Burden if Implemented Consistently (Audit # 200230052)

I agree with your overall assessment on the positive impact the new process for managing requests for tax information has on reducing taxpayer burden, and improving the timeliness and currency of the LMSB examinations. We developed and implemented the Information Document Request (IDR) Management initiative to improve how we manage delinquent requests for issue-related tax information. The process establishes specific timeframes for follow up with the taxpayer and requires the examination team to take specific actions when taxpayers do not provide timely responses to our requests for tax-related information.

To measure the impact of the IDR Management balanced measures, we submit quarterly reports to the Director, Performance, Quality, Assurance and Audit Assistance (PQA). Although the IDR Management process is used for Coordinated Industry Case (CIC) and Industry Case (IC) examinations, we submit the quarterly reports for CIC examinations only. We do not require quarterly reports for IC examinations because of the substantial burden placed on managers to manually prepare the numerous reports required for such a large volume of examinations. Instead, we delayed the reporting for these examinations until the completion of our new automated Issue Management System (scheduled for release by January 2004). When this system becomes operational, the Director, PQA can retrieve the delinquent IDR data for all LMSB examinations without causing additional burden to managers.

Once the system is implemented, the IDR Management Process will ensure that the appropriate issue-related tax information is provided timely for all LMSB examinations. This supports our strategic goal for early resolution of issues, which will positively impact cycle time, currency of examinations, and customer and employee satisfaction.

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I attached a detailed response of the corrective actions we will take to address your recommendations.

If you have any questions, please contact Thomas W. Wilson, Industry Director, Communications, Technology, and Media at (510) 637-4600 or Kelly Cables, Director, PQA at (202) 283-8334.

Attachment

## The New Process for Managing Requests for Tax Records During Examinations of Large Businesses Can Reduce Taxpayer Burden if Implemented Consistently

Attachment

### **IDENTITY OF FINDINGS/RECOMMENDATIONS**

#### **FINDINGS:**

- The Information Document Request management process benefits taxpayers and the Internal Revenue Service.
- Additional steps are needed to better integrate the Information Document Request management process into examinations.

#### **RECOMMENDATIONS:**

The Treasury Inspector General for Tax Administration (TIGTA) recommends that the LMSB Division's Industry Director, Communications, Technology, and Media coordinate with the Director, PQA to incorporate the following recommendations in the IDR Management Process guidelines and the LMSB Quality Measurement System (LQMS).

#### **RECOMMENDATION 1**

Provide examples in IDR Management Process guidelines of situations where it may be acceptable for examination teams to bypass some or all of the IDR Management processes. The examples should include instances where it may be acceptable for examination teams to request documents from taxpayers that were previously submitted to the IRS in lieu of using the IRS' automated data systems to obtain the documents.

#### **CORRECTIVE ACTION(S):**

Examples of situations where it may be acceptable for examination teams to bypass the IDR Delinquent Management process are already listed in the IRM 4.45.13. 4.10.4.5, "The Exception Process." These examples, added January 1, 2002, assist the examination teams and managers when deciding whether to bypass existing delinquent IDR procedures.

The IDR Management Process was developed to provide a structured process to manage delinquent Information Document Requests (IDR) (Form 4564). The new management process for delinquent requests did not replace the general IDR procedures in place for CIC and IC examinations for requesting information from the taxpayer when planning and during the course of the examination.

The general process for requesting information is a collaborative process between the taxpayer and the IRS to agree on and provide information needed to support an examination by an agreed due date. The request can be made during the pre-planning stage, pre-conference opening, and/or during meetings with the taxpayer. The IDR lists

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the specific documents the taxpayer should provide the IRS to resolve identified issues. Although the facts in each case will determine what documents are needed, the examiner, whether conducting an IC or CIC examination, is required to use the general IDR procedures to request documents from the taxpayer.

The IRM 4.45, CIC Program, includes a section on the preplanning process for CIC examinations and the delinquent IDR process for CIC and IC examinations. It does not include a section on the general IDR process. A team is convening November 2003 to revise IRM 4.45 to improve LMSB examination procedures. The team is expected to complete revisions to the IRM by mid January 2004. We will ensure that procedures on the general IDR Management Process are included in the IRM rewrite. Revisions will include an outline of the general procedures for requesting information from the taxpayer, the delinquent IDR process, and clear guidelines stating that the general and delinquent IDR processes are applicable to both IC and CIC examinations.

**IMPLEMENTATION DATE:**

PROPOSED: January 31, 2004

**RESPONSIBLE OFFICIAL(S):**

Industry Director, Communications, Technology and Media

**CORRECTIVE ACTION(S) MONITORING PLAN:**

We will monitor the planned corrective actions to ensure the revisions to the IRM are printed, and the implementation documents are revised and placed on the LMSB Website. We will share the revised program documents with employees via the LMSB Division's All Managers and All Employees E-mail lists.

**RECOMMENDATION 2**

Revise IDR Management Process guidelines to require written approval from mid-level managers or an executive to be included in case files before examination teams decide to bypass some or all of the IDR Management processes.

**CORRECTIVE ACTION(S):**

The "exception" guidelines for the IDR Management Process provide for managerial approval at the team manager level. This supports our strategy to accomplish change management by enabling frontline managers to drive change and increase accountability at all levels. We will add language to the IRM 4.45.13.4.10.4.5, "The

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Exception Process" to require managers to document departures from the Delinquent IDR Management procedures on the Examining Officer's Activity Record (Form 9984).

We will also clarify the "exception" process for delinquent requests by changing all references in IRM 4.45.13.4.10 from the "Exception Process" to "Exception to the Delinquent IDR Management Process."

### **IMPLEMENTATION DATE:**

PROPOSED: January 31, 2004

### **RESPONSIBLE OFFICIAL(S):**

Industry Director, Communications, Technology and Media

### **CORRECTIVE ACTION(S) MONITORING PLAN:**

We will monitor the planned corrective actions to ensure the revisions to the IRM are printed, and the implementation documents are revised and placed on the LMSB Website. We will share the revised program documents with employees via the LMSB Division's All Managers and All Employees E-mail lists.

### **RECOMMENDATION 3**

Revise IDR Management Process guidelines to include IC examinations in mandatory reporting to PQA on delinquent IDRs.

### **CORRECTIVE ACTION(S):**

We have reviewed the current requirement that field examination personnel prepare IDR Summary Delinquency Reports for CIC cases and the impact of extending that reporting requirement to IC cases. We are concerned with the amount of burden placed on our examiners and managers to manually prepare the reports for submission to PQA. In addition, the manual analysis of this data by PQA personnel would also pose a hardship on the PQA staff. We believe it would be most effective to wait until the new Issue Management System (IMS) is established (scheduled for release by January 2004). This new automated system will generate the required delinquency reports and provide trend analysis reports for PQA's use.

### **IMPLEMENTATION DATE:**

PROPOSED: January 31, 2004

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### RESPONSIBLE OFFICIAL(S):

Director, PQA

**CORRECTIVE ACTION(S) MONITORING PLAN:** Not applicable.

### RECOMMENDATION 4

Modify the LQMS to include evaluations on whether examiners are considering and using the IRS' automated systems to obtain copies of employment tax and other types of returns needed for examinations.

### CORRECTIVE ACTION(S):

Prior to October 1, 2002, the IC LQMS Review Process evaluated the use of sources of tax return data from internal automated systems under Standard 1, Audit Planning based on specific "reason codes" contained in the Case Review Input Document. During the redesign of the LQMS process, which became effective October 1, 2002, those "reason codes" were removed and replaced by a general reason code (1A1(a)), which evaluates whether the examiner or examination team considered filing and compliance requirements.

Under the new code, it is acceptable to verify filing and compliance requirements using automated systems. Usually, LMSB examiners use internal automated systems to request copies of employment tax returns. However, there are instances during an audit of a large consolidated return that requires us to ask for hard copies of the taxpayer's employment tax returns because the taxpayer filed numerous employment tax returns under various Employer Identification Numbers (EINs) due to subsidiaries, partnerships, mergers & acquisitions, etc. Sometimes, the only way to get a complete picture of all employment tax returns filed for a consolidated return under all the various EINs is to request copies from the taxpayer. In addition, Form 851, Affiliations Schedule, frequently is incomplete and/or inaccurate. Because of incorrect EINs on the Forms 851, the employment tax examiners are unable to use internal electronic sources to obtain the return information needed.

In summary, we agree that internal electronic sources of information can be relied upon to perform audit responsibilities, but some examinations will require that copies of employment tax returns be requested from taxpayers.

During our audit closing meeting with TIGTA officials, we asked what TIGTA meant by "other types of returns" in Recommendation 4. We were told that these documents could be pension and profit sharing tax returns. The Tax Exempt & Governmental Entities (TEGE) Operating Division has sole jurisdiction over the examination and

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quality review of pension and profit sharing plans. The only role that the LQMS Review could serve is to review the process by which an LMSB examiner or examination team makes referrals to the TEGE Division. Since the LMSB Division has no control over the administration of the Pension and Profit Sharing Program, we believe the term “other types of returns” should be removed from the TIGTA recommendation.

Finally, IRM 4.10.5.2.1, “Filing Verification” states that filing verification can be determined by using internal sources of information such as Corporate Files on Line (CFOL) and Midwest Automated Compliance System (MACS). This guidance would apply to examiners meeting their audit compliance responsibility for any number of related return areas. IRM 4.10.5.2.1, paragraph (2) states, “filing should be verified for prior and subsequent year returns, related returns, employment tax returns, gift tax returns, excise tax returns, pension profits returns, etc.” Since the IRM already contains guidance about filing verification using internal information sources and the LQMS Review Process captures this information under Planning the Examination, Reason Code 1A1(a), we believe no corrective action is necessary.

**IMPLEMENTATION DATE:**

COMPLETED: 10/01/2002 (redesign of the LQMS process)

**RESPONSIBLE OFFICIAL(S):**

Director, PQA

**CORRECTIVE ACTION(S) MONITORING PLAN:** Not applicable.