

**The Indian Tribal Governments Office Should  
Reevaluate the Compliance Check Program to  
Make the Best Use of Its  
Limited Resources**

**September 2005**

**Reference Number: 2005-10-160**

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 30, 2005

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT  
ENTITIES DIVISION

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Indian Tribal Governments Office  
Should Reevaluate the Compliance Check Program to Make the  
Best Use of Its Limited Resources (Audit # 200510022)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) Indian Tribal Governments (ITG) office management effectively used the ITG office Compliance Check Program to understand its customers' needs and to identify appropriate remedies to compliance issues. The information presented in this report was derived primarily from two audits recently conducted on the ITG office Compliance Check Program. In Fiscal Year (FY) 2004, we reviewed the selection and assignment of compliance check cases.<sup>1</sup> In FY 2005, we reviewed the execution and results of compliance check cases.<sup>2</sup>

The ITG office is responsible for administering Federal tax laws for the 564 Federally recognized Indian Tribal governments and their approximately 2,100 related entities. The ITG office performs compliance checks to understand customer needs and to identify appropriate remedies for compliance issues. Compliance checks are an important part of the ITG office's strategy to reduce the need for enforcement by keeping abreast of trends that are emerging among the tax filing and payment characteristics of tribal entities.

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<sup>1</sup> *The Process for Assigning Cases Should Be Strengthened to Provide Better Coverage to Indian Tribal Governments Most in Need of Compliance Checks* (Reference Number 2004-10-191, dated September 2004).

<sup>2</sup> *The Indian Tribal Governments Office Can Improve the Effectiveness, Consistency, and Efficiency of Compliance Checks* (Reference Number 2005-10-158, dated September 2005).

In summary, the Compliance Check Program developed by the ITG office was effective in enabling ITG office management to achieve their initial priorities of identifying their customers, obtaining information about the needs of their customer base, and developing Government-to-Government relationships with tribal leadership. In addition, compliance checks provide valuable information to ITG office management that is not obtained through other types of compliance activities. However, in considering the overall impact of the Compliance Check Program on the ITG office's compliance goals, we identified opportunities to enhance the Program to enable ITG office management to more fully achieve their goal of identifying remedies for compliance issues. Specifically, we determined the ITG office Compliance Check Program has the following limitations:

- The formulas used in data analyses to identify compliance check cases were not always effective at differentiating between high and low risk compliance checks, and ITG office management does not incorporate the results of prior compliance checks into the ITG Inventory Database<sup>3</sup> to objectively improve case selection.
- ITG office management has initiated efforts to try to determine in the future what the collective impact of compliance checks is on their customers' understanding and compliance with Federal tax laws or the long-term impact on compliance levels. However, they currently cannot determine this because information such as the reasons for filing delinquent returns is not available and they do not have a sufficient pool of completed cases and subsequent year filing behavior. In addition, the IRS is not always aware of and cannot predict the external factors that may affect a tribal entity's filing behavior.
- ITG field specialists' work in conducting compliance checks was not always consistent with office guidelines.
- The ITG office's various databases used for controlling compliance check inventory were not designed as a nationwide management information system and, as a result, provided only limited inventory control capabilities. For example, the databases did not provide the detailed cycle time information to effectively monitor compliance check progress or the current status of actions taken to complete cases.

Because of the limitations identified, the Compliance Check Program as currently configured may not be the most effective use of ITG office resources. Addressing the limitations should enable ITG office management to have a more effective and efficient Program that identifies remedies to tribal entity compliance issues.

We recommended the Director, ITG, Tax Exempt and Government Entities (TE/GE) Division, clarify the guidelines for field specialists to complete the risk assessment

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<sup>3</sup> The ITG Database was developed over the past several years and contains data from the IRS' main database (Master File), the Bureau of Indian Affairs, and other sources on Indian Tribal governments and their related enterprises. The ITG Database is made up in part by the ITG Inventory Database, the Outreach Assignment Database, and the Tribal Compliance Database. The ITG Inventory Database was developed by the ITG Outreach, Planning, and Review office in FY 2001 to analyze filing and payment characteristics and to control nonexamination activities, such as compliance checks and tip rate reviews.

portion of the Compliance Check Report<sup>4</sup> to ensure more consistency and reliability of the risk assessment information. Additionally, the Director, ITG, should reevaluate the process used for the Compliance Check Program to address limitations in the Program and include in one of the planned compliance studies a determination of whether compliance checks are more beneficial for certain market segments or types of customers and which customers may require other compliance efforts.

Management's Response: The Commissioner, TE/GE Division, agreed with our recommendations and is implementing corrective actions. The Director, ITG, discontinued the practice of ITG Specialists conducting subjective risk assessments and is redesigning the Compliance Check template to focus on an objective assessment of risk; reevaluated the Compliance Check Program and is implementing a self-Compliance Check program to conserve ITG resources; and has drafted a plan to attempt to measure the overall effectiveness of Compliance Checks. This study is planned to address a broad question, including whether they are more beneficial for certain market segments or types of customers, and which customers may require other compliance efforts. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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<sup>4</sup> The Compliance Check Report is a template that documents the results of the compliance check. It includes information about the tribal entity and contains the field specialist's assessment of compliance risk. The Compliance Check Report is used to ensure consistency of completed compliance checks.

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### Background

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The Internal Revenue Service's (IRS) Indian Tribal Governments (ITG) office is responsible for administering Federal tax laws for the 564 Federally recognized Indian Tribal governments (tribes) and their approximately 2,100 related entities. The ITG office is part of the Government Entities function of the Tax Exempt and Government Entities (TE/GE) Division. The mission of the ITG office is to provide its customers top-quality services by helping them understand and comply with applicable laws and to protect the public interest by applying the tax law with integrity and fairness to all.

The ITG office was established as part of the IRS in Fiscal Year (FY) 2000. Prior to this, the IRS did not have a coordinated effort to interact with tribal governments and had not identified the full customer population or the compliance needs within that customer base. Another challenge for the ITG office during its initial startup period was facilitating the IRS' efforts to implement Executive Order 13,175<sup>1</sup> by creating Government-to-Government relationships between the IRS and the various tribes. The Executive Order also required all Federal Government agencies to consult with tribes on a collaborative basis prior to the formulation and enactment of new policies.

To help accomplish its mission, the ITG office works with tribes to lessen the need for enforcement by keeping abreast of trends that are emerging among the tax filing and payment characteristics of tribal entities. One of the ways this is achieved is with compliance checks.<sup>2</sup> The ITG office began performing compliance checks in FY 2001 to obtain current information on its customers, better understand customers' needs, and identify appropriate remedies to compliance issues.

The ITG office uses a process developed by its Outreach, Planning, and Review (OPR) office to identify the tribal entities most in need of a compliance check. The process uses preset formulas and other criteria to analyze data from

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<sup>1</sup> Exec. Order No. 13,175, 3 C.F.R. 304 (2001), reprinted in 25 U.S.C. § 450 (2001).

<sup>2</sup> Unlike an examination or audit, a compliance check does not seek to determine a tax liability for any particular period; it is voluntary, and the tribe may refuse to participate in a compliance check without penalty.

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employment tax and various information returns and external data from other Federal Government agencies, web sites, and a commercial database from Tribal Data Resources. The field group managers<sup>3</sup> contact the OPR office Classification and Delivery Specialist to request workloads for field specialists by specific geographical territory and experience level. Tribal leadership may also request a compliance check, or an ITG office field group may initiate a compliance check when it identifies a need for one based on the group's knowledge of the tribe.

During a compliance check, field specialists interview key personnel in the tribe, inquire about the selected tribal entity, and ask additional questions about filing requirements for the tribe to determine whether all record keeping and information reporting requirements are being met. The field specialists enter information obtained during the compliance check on an ITG office Compliance Check Report.<sup>4</sup> The template outlines the minimal information that should be obtained during the compliance check. It also provides a place for the field specialist's assessment of the compliance risk for the tribal entity for employment tax, information and cash transaction reporting, tip reporting, and excise taxes and any recommendations for future activity needed for that tribal entity.

The information presented in this report is derived primarily from two audits recently conducted on the ITG office Compliance Check Program. In FY 2004, we reviewed the selection and assignment of compliance check cases.<sup>5</sup> In FY 2005, we reviewed the execution and results of

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<sup>3</sup> ITG office field groups are composed of a manager and field specialists who interact with tribes to perform outreach, education, and examination activities.

<sup>4</sup> The Compliance Check Report is a template that documents the results of the compliance check. It includes information about the tribal entity and contains the field specialist's assessment of compliance risk. The Compliance Check Report is used to ensure consistency among completed compliance checks.

<sup>5</sup> *The Process for Assigning Cases Should Be Strengthened to Provide Better Coverage to Indian Tribal Governments Most in Need of Compliance Checks* (Reference Number 2004-10-191, dated September 2004).

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compliance check cases.<sup>6</sup> Appendix IV presents details of these audits and the status of the corrective actions implemented by the ITG office.

This review was performed at the ITG office National Headquarters in Washington, D.C., during the period May through June 2005, in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### The Compliance Check Program May Not Be the Most Effective Use of Indian Tribal Governments Office Resources

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The Compliance Check Program developed by the ITG office was effective in enabling ITG office management to achieve their initial priorities of identifying their customers, obtaining information about the needs of their customer base, and developing Government-to-Government relationships with tribal leadership. In addition, compliance checks provide valuable information to ITG office management that is not obtained through other types of compliance activities. For example, the process for conducting compliance checks should enable the ITG office to identify any new or closed tribal entities and to determine the risk of noncompliance in certain key areas contained in the Compliance Check Report. If more specific assistance is needed by a tribal entity, the field specialist can either provide the assistance during the compliance check visit or schedule an education and outreach visit for the future. In addition, if a tribal entity agrees to complete an obligation such as submission of a delinquent return, or if an examination is needed, the OPR office will schedule additional follow-up work for that tribal entity. For the first 4 years of the Program, the ITG office conducted 511 compliance checks of tribal entities.<sup>7</sup>

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<sup>6</sup> *The Indian Tribal Governments Office Can Improve the Effectiveness, Consistency, and Efficiency of Compliance Checks* (Reference Number 2005-10-158, dated September 2005).

<sup>7</sup> Initially, ITG office management made assignments of an entire tribe. However, tribes had multiple entities, and beginning in July 2003, assignments were made for single entities only. Therefore, the actual number of compliance checks for single entities completed is higher than what ITG office records reflect.

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In considering the overall impact of the Compliance Check Program on the ITG office's compliance goals, we identified opportunities to enhance the Program to enable ITG office management to more fully achieve their goal of identifying remedies for compliance issues. Specifically, we determined the ITG office Compliance Check Program has the following limitations:

- ITG office management used a process for identifying compliance checks based on several preset formulas and other criteria to rank and assign tribal-related entities for compliance work. These formulas were periodically revised or discontinued and new ones created. However, we determined the formulas were not always effective at differentiating between high and low risk compliance checks. In addition, ITG office management does not incorporate the results of prior compliance checks into the ITG Inventory Database<sup>8</sup> to objectively improve case selection. For example, if the specialist determined there was a low or no risk of noncompliance for a tribal entity because the tribe was not required to file, there was no process to build this risk assessment into the ITG Inventory Database. We believe the actual risk assessment from a compliance check represents valuable information that ITG office management can use to improve their ability to select the highest risk cases.
- ITG office management has initiated efforts to try to determine in the future what the collective impact of compliance checks are on their customers' understanding and compliance with Federal tax laws or the long-term impact on compliance levels. However, they currently cannot determine this because information such as the reasons for filing delinquent

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<sup>8</sup> The ITG Database was developed over the past several years and contains data from the IRS' main database (Master File), the Bureau of Indian Affairs, and other sources on Indian Tribal governments and their related enterprises. The ITG Database is made up in part by the ITG Inventory Database, the Outreach Assignment Database, and the Tribal Compliance Database. The ITG Inventory Database was developed by the ITG Outreach, Planning, and Review office in FY 2001 to analyze filing and payment characteristics and to control nonexamination activities, such as compliance checks and tip rate reviews.

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returns is not available and they do not have a sufficient pool of completed cases and subsequent year filing behavior. In addition, the IRS is not always aware of and cannot predict the external factors that may affect a tribal entity's filing behavior. We believe ITG office management should include in one of the planned compliance studies a determination of whether compliance checks would be more effective with some segments of tribal entities or types of customers and which customers may require other compliance efforts (where compliance checks may not have been beneficial for future compliance).

- ITG office field specialists' work in conducting compliance checks was not always consistent with office guidelines.
- The ITG office's various databases used for controlling compliance check inventory were not designed as a nationwide management information system and, as a result, provided only limited inventory control capabilities. For example, the databases did not provide the detailed cycle time information to effectively monitor compliance check progress or the current status of actions taken to complete cases.

Because of the limitations identified, the Compliance Check Program as currently configured may not be the most effective use of ITG office resources. Addressing the limitations should enable ITG office management to have a more effective and efficient Program that identifies remedies to tribal entity compliance issues.

The ITG office Compliance Check Program comprises a major part of the ITG office's annual examination budget. The TE/GE Division's February 3, 2005, Business Performance Review showed that, for FY 2004, the ITG office had 39 Examination Full-Time Equivalents (FTE),<sup>9</sup> who closed 313 examination cases and completed

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<sup>9</sup> A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2004, 1 FTE was equal to 2,096 staff hours. For FY 2005, 1 FTE is equal to 2,088 hours.

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271 compliance checks.<sup>10</sup> For FYs 2005 and 2006, ITG office management plans to complete 280 and 350 compliance checks, respectively. While the Business Performance Review report does not break down the amount of resources spent on examinations versus compliance checks, it does indicate that a significant part of the field groups' inventory is devoted to compliance checks. ITG office management advised us approximately 1,165 and 1,485 staff days were spent on compliance checks in FYs 2003 and 2004, respectively. The staff days for FY 2004 represent just under 7 staff years, or approximately 18 percent of the overall Examination FTEs.

### **The formulas did not effectively identify high risk compliance checks and the ITG Inventory Database was not updated based on the individual results of compliance checks**

The effectiveness of the compliance check case selection process could be improved by incorporating the results of completed compliance checks and the field specialists' assessment of the risks of noncompliance into the data analyses. This information is crucial to improving the process of identifying the highest risk cases. From our judgmental sample of compliance check cases closed in FY 2004,<sup>11</sup> we determined the actual compliance risk as determined by the field specialists was often different from what the analyses showed (i.e., most tribal entities were determined to be at low risk of noncompliance instead of the high risk the data analyses showed). Because compliance check results are not incorporated into the ITG Inventory Database, the ITG office's process will become less reliable in identifying entities with the highest risk of noncompliance. Further, the ITG office may not identify the most significant compliance needs of its customers or identify remedies for the most significant compliance issues.

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<sup>10</sup> The Business Performance Review reported 271 completed compliance checks for FY 2004; the ITG Inventory Database reflected 272 completed compliance checks for FY 2004.

<sup>11</sup> During our FY 2005 audit, we tested the effectiveness of the ITG office case selection process by reviewing a judgmental sample of 52 of the 272 compliance check cases closed in FY 2004.

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The advantage of using a case selection process based on data analyses and various formulas is that it generally keeps ITG office group managers and field specialists independent of the assignment process. It also provides an objective basis of case selection<sup>12</sup> that allows the ITG office group managers to provide the Indian Tribal governments assurance that tribes are not being singled out for reasons other than those identified by the data analyses.

The OPR office's formulas assign scores to each tribal entity. The entities displaying the characteristics of needing a compliance check were given a low data score, and the entities with less need for a compliance check were given a high data score.

The ITG office primarily used two of the six formulas (referred to as Formulas A and B) to assign compliance checks during the period July 2003 through May 2004. These 2 formulas<sup>13</sup> were used to select 232 of the 266 compliance check assignments for that period. During our FY 2004 audit, we determined compliance checks for these two formulas were primarily assigned in order of priority based on the lowest scores, except for a few cases that met other predetermined criteria.

While this practice was generally adhered to on a case-by-case basis, ITG office management was not consistent with this practice when considering all five ITG office field groups nationwide. We determined there was a wide variance in scores among the five ITG office field groups for Formula B compliance checks. This occurred because field group managers tended to request work based on workload needs according to the geographic locations or experience level of field specialists rather than in strict priority order based on score. Although these factors had merit when considered individually for each case, when

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<sup>12</sup> For example, an entity could be selected because analysis of tax return and other information showed it falls outside of a normal, predetermined range or because the entity did not file a tax return and should have.

<sup>13</sup> During our FY 2004 audit, we reviewed the 2 formulas used to select 232 of the 266 compliance checks during the period July 2003 through May 2004. These formulas are designed to address noncompliance identified in the OPR office's annual data analyses. The remaining four formulas were not used as often and could not be trended.

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combined on a nationwide basis, these factors allowed ITG office field groups to have inconsistent compliance check coverage of the Indian Tribal governments for which they are responsible.

Additionally, ITG office management had not determined at what score to stop assigning cases for each formula or how to compare the data scores of the various formulas to know which data scores and which formulas should take priority. As a result, the OPR office Classification and Delivery Specialist used judgment to determine how far up the formula score listings to assign tribal entities for compliance checks and which formulas to use.

In our FY 2004 report, we recommended:

- The Director, ITG, provide guidance for field group managers to ensure an appropriate balance of work is requested to achieve the desired number of compliance checks and coverage for their assigned tribes.
- The Director, ITG, gather appropriate data to establish cutoff data scores for the different formulas used in the data analyses, to aid the OPR office Classification and Delivery Specialist in determining when one formula should take priority over another.

During our FY 2005 audit, we tested the effectiveness of the ITG office case selection process by reviewing a judgmental sample of 52<sup>14</sup> of the 272 compliance check cases closed in FY 2004. Most cases included in our sample were scored at a high risk of noncompliance by the OPR office Classification and Delivery Specialist based on the analyses. However, the ITG office field specialists determined these tribal entities were often at low risk of noncompliance. For many of the cases, field specialists determined the tribal entities did not have a problem with delinquent returns even though the data analyses indicated a high risk for noncompliance in filing the required returns.

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<sup>14</sup> We selected a sample of 55 cases that were assigned and closed on the ITG Inventory Database. However, we reviewed 52 cases because compliance checks were not conducted for 3 of the entities in our sample. One entity was an exempt organization and not an ITG office customer, one entity was a defunct business, and another entity declined to have a compliance check conducted.

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- Field specialists rated only 2 of the 27 entities as at high risk for noncompliance based on the selection formula.
- Field specialists rated 5 of the 27 entities as at high risk of noncompliance in 2 other areas that had not been identified as high risk by the formula.
- For an additional 5 of the 27 entities rated as high risk by the OPR office, the field specialists secured 17 delinquent returns. Although 17 returns were obtained, the field specialists rated all of the risk factors as low or not applicable for these 5 cases. This may be an indication that, although the data analyses were correct in identifying a high risk of delinquent returns, the field specialists did not properly document the level of risk.
- In addition, 12 of the 52 compliance check cases in our sample were requested by the tribe or by the ITG office field groups and, therefore, were not selected based on the OPR office Classification and Delivery Specialist's data analyses. In 3 of these cases, 20 returns were secured by the field specialists. However, only two of the three cases had areas rated by the field specialists as high risk for noncompliance. The remainder of the risk factors for all 12 cases was rated as low or not applicable.

ITG office management advised us they do not capture the field specialists' risk assessments because they are subjective and the field specialists have not been trained to make these judgments consistently. What one field specialist ranks as a high risk, another may rank as a low risk. Additionally, the field specialists may be assessing risk based on the conditions after they have corrected the causes for the high-risk score that generated the compliance check assignment or have provided instructions and education that reduced the risk for future noncompliance. Conditions within the tribal entity also may change after the field specialist's compliance check is completed, making the risk assessment inaccurate. For example, tribal leadership may change and all new accounting personnel may be put in place, which may increase the risk of noncompliance in the future.

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ITG office management advised they do not incorporate the results of the compliance checks into the ITG Inventory Database for more objective analysis and case selection. Rather, they periodically updated some of the formulas (revised or discontinued some formulas and created new ones based on workload results, employee and customer feedback, and an annual compliance analysis used to select future work). Currently, the OPR office Classification and Delivery Specialist manually reviews the previously completed Compliance Check Reports prior to sending an entity out for an examination or compliance check. However, ITG office field specialists are employees trained to conduct tax examinations and perform compliance checks. With clearer guidance about how to document compliance risks in the Compliance Check Report, field specialists should be able to provide consistent and reliable risk assessments that can be used to validate the data analyses that generated the compliance checks, determine where the risk of noncompliance diminishes for each of the formulas used, and improve the selection process.

Additionally, ITG office management stated that one of the main accomplishments of the Compliance Check Program has been to determine the cause or reasons for noncompliance for the individual tribal entities. However, the Compliance Check Report is not designed for the field specialists to record their findings on the causes of noncompliance, so this information is also not captured in the ITG Inventory Database.

### **Methodologies to measure the impact of compliance checks have not been implemented**

The ITG office Compliance Check Program has been in existence since FY 2001, and ITG office management is continuing to develop the Program to make the case selection process more effective and to gather better data from the ITG office customers. However, ITG office management has not implemented a method to measure compliance levels in their customer base and the impact compliance checks have on overall compliance. As a result, ITG office management does not know if its Compliance Check Program is the best use of its limited resources. By the conclusion of our FY 2005 audit, ITG office

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management had drafted a research plan to try to measure the impact that compliance checks have on overall compliance levels for their customers.

The Government Performance and Results Act of 1993<sup>15</sup> requires major functions of operations to specify their general goals and objectives in annual plans and include outcome-related goals; to determine the skills, technology, and human capital necessary to achieve these goals; and to determine the management information necessary to monitor whether they are achieving their goals. The number of compliance checks completed each year is a valid measure to help ITG office management understand their customers and to identify the customers' tax issues, problems, and concerns. However, this number does not measure the impact on voluntary compliance.

ITG office management advised us the analysis of the impact of compliance checks could not be performed until a sufficient number of compliance check cases are completed and sufficient time had passed to be able to measure any impact. In addition, they believe that all their work actions have a positive impact on voluntary compliance, but the difficulty in determining such an impact has caused them to use other types of primary measures, such as the number of cases completed.

They also advised that measuring the impact of compliance checks on compliance is difficult because information such as the reasons for filing delinquent returns is currently not available. In addition, the IRS is not always aware of and cannot predict the external factors that may affect a tribal entity's filing behavior. These external factors include periodic tribal management turnovers and the use of accountants, tax attorneys, or other highly experienced payroll specialists by some tribes versus tribes whose bookkeepers may be unfamiliar with the tax laws. For example, the ITG office cannot attribute an increase in a tribe's filing behavior to the ITG office's outreach and education efforts because it may be attributable to something else, such as the tribe hiring a more

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<sup>15</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

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knowledgeable bookkeeper or accountant. The change in the filing (i.e., increased number of returns filed) is quantifiable; however, the reason for the change is not. Because of the many variables involved, ITG office management advised us they cannot compare the results of compliance checks to all the tribes but must look at the results of compliance checks for tribal entities with similar characteristics.

ITG office management has completed a study of one grouping (subset) of the population of tribal entities with similar characteristics in April 2005. However, this study will enable ITG office management to draw only broad conclusions about the tribes and entities within this market segment and does not contain the detailed analysis necessary to determine changes in compliance levels of individual tribal entities. ITG office management is planning another research project to help identify general indicators within two other subsets of the population of tribal entities:

- Outreach activities on the filing of Suspicious Activity Reports<sup>16</sup> by tribal entities that would be required to file them.
- Compliance checks on the filing and payment of employment taxes by a specific subset of tribal entities.

Without an adequate method to measure the compliance levels and the impact that compliance checks have on compliance in their customer base, ITG office management cannot determine whether compliance checks are achieving the desired benefits to the Federal Government or to their customers. Considering these factors and the importance that the ITG office places on compliance checks in accomplishing its mission, a reevaluation of the impact of the Compliance Check Program on the ITG office's goals is warranted, including determining whether compliance checks would be more effective for certain market segments

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<sup>16</sup> Suspicious Activity Reports are required to be filed by certain businesses (e.g., check cashers, money transmitters, casinos, card clubs, financial institutions, etc.) to report suspicious activities of their customers to the United States Department of the Treasury, Financial Crimes Enforcement Network.

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or types of customers and which customers may require other compliance efforts.

### **Work performed on compliance checks was not always consistent with office guidelines**

ITG office management developed a Compliance Check Report (template) to ensure ITG office field specialists gather consistent information about tribal entities during compliance checks. In our FY 2005 audit, we determined field specialists prepared Compliance Check Reports for all compliance check cases reviewed. However, we identified instances in which compliance checks were not completed but were reported as such for FY 2004; items were not completed on the Compliance Check Report; and a significant number of delinquent returns were obtained and processed, which is not the focus of compliance checks.

- The OPR office Quality Review (QR) function staff determined 1 of the 52 compliance check cases in our sample did not qualify for closure as a completed compliance check. We also noted during our review of the documentation<sup>17</sup> for the 52 sample cases that the OPR office QR function staff identified an additional 4 compliance checks closed in FY 2004 that did not qualify as completed compliance checks. We did not evaluate all closed compliance checks for FY 2004, so we do not know the full extent of this issue. An error in a database report formula resulted in four of the five incomplete cases being reported as complete, and a case closing error (i.e., incorrect closing code input to the ITG Inventory Database) resulted in the fifth incomplete case being reported as complete. Errors in database formulas and case closing errors can result in inaccurate information reported from the ITG Inventory Database. This is especially important in light of the ITG office's annual performance goal measuring the number of compliance checks completed. If cases are

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<sup>17</sup> We reviewed Transmittal Documents (Form 3210) for our sample of 52 cases. We identified one case from our sample the Quality Review function staff had listed as not qualifying as a completed compliance check. We also identified 4 additional cases, not included in our sample, that were listed on the same Forms 3210 as not qualifying as completed compliance checks.

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incomplete or incorrectly included in the number of completed compliance checks, ITG office management is at risk of reporting overstated accomplishments for compliance check cases.

- The field specialists did not always include information requiring updates to the ITG Database or the IRS Master File,<sup>18</sup> such as new tribal entities or changes to filing requirements, on the Compliance Check Report. However, if the specific information to be updated is not documented in the Compliance Check Report, ITG office management cannot be assured the updates will be completed. If the updates are not completed timely, unnecessary notices could be issued to the tribes.
- ITG office field specialists obtained 344 delinquent returns for 17 cases (16 tribal entities) related to the cases in our sample. The effort to obtain delinquent returns may have been time consuming because the ITG office field specialists sometimes assisted in preparing returns, shipping returns to the IRS Submission Processing site,<sup>19</sup> and processing payments. This work, although important in the interest of promoting voluntary compliance and for reducing the burden on customers, meant the ITG office field specialists could not do other ITG office casework.

The Small Business/Self-Employed (SB/SE) Division is responsible for obtaining delinquent returns for tribal entities in collection status. ITG office management advised us the SB/SE Division may not attempt to obtain delinquent returns of tribal entities because of the remote locations of some tribes and because of other higher priority work. The ITG office has responsibility for obtaining delinquent returns not yet in collection status. We could not determine if any of the 17 cases were in collection status at the time of the compliance checks.

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<sup>18</sup> The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

<sup>19</sup> The IRS location that processes paper and electronic submissions, corrects errors, and forwards data to the IRS Computing Centers for analysis and posting to taxpayer accounts.

## The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources

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ITG office management advised us all IRS employees have an obligation to address noncompliance, including obtaining delinquent returns. The ITG office field specialists attempt to obtain delinquent returns during a compliance check, although this is not the sole purpose or focus of a compliance check. Accepting delinquent returns during a compliance check is viewed as a way of providing better service to their customers and as an opportunity to educate the tribal entities on their filing obligations. ITG office management was monitoring compliance checks to ensure they were not held open while waiting on delinquent returns from the tribes. If an ITG office field specialist indicates that the tribal entity will be filing a delinquent return, the OPR office Classification and Delivery Specialist will create a follow-up item in the ITG Inventory Database. After a reasonable period of time,<sup>20</sup> the IRS databases are researched to determine whether a return has been filed. If the IRS databases show the return has been received, the follow-up item is closed; otherwise additional actions, such as an examination, may be considered.

In our FY 2005 report, we recommended the Director, ITG, correct the data in the ITG Inventory Database for the closed compliance check cases that were incorrectly recorded as complete and revise the formula that calculates the number of completed compliance checks.

### **The ITG office's various databases for controlling cases were not an effective management information system**

During our FY 2005 audit, we determined ITG office management maintained control over the sample of compliance checks we reviewed throughout the process from assignment through case closure. While this was important for physical inventory control, the database used to track cases through the compliance check process was not an effective or efficient tool for monitoring the progress of cases. Specifically, the database identified the field specialists that compliance checks are assigned to but did

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<sup>20</sup> The OPR office Classification and Delivery Specialist decides what is reasonable on a case by case basis.

## The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources

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not provide incremental cycle time data or the current status of actions taken to complete the cases.

After creation of the ITG office in FY 2000, ITG office management developed several stand-alone databases to manage the ITG office workload and to maintain information that had been collected on ITG office customers. ITG office management advised us these databases perform their individual functionality well, and collectively they have contributed to a reduction in cycle time. However, the databases cannot be considered a nationwide management information system that provides the necessary inventory control over all casework. For example, the databases are not integrated and do not allow updates of status information between the databases. Thus, it is labor intensive for the management staff to determine why cases do not progress efficiently and what assistance the ITG office field specialist or manager may need to keep cases on track.

We determined the following from our review of a sample of 52 of the 272 compliance check cases that were closed in FY 2004:

- The ITG Inventory Database is used as a master inventory list for controlling compliance checks while they are being worked. This Database is maintained by the OPR office and is primarily used at the National Headquarters level. Reports and lists of case inventory are generated to monitor compliance check inventory and to periodically reconcile the OPR office's records with the inventory in the field offices.
- Each of the five field group managers has a database, separate from the ITG Inventory Database, to control cases in the group's inventory. The group databases list all work ongoing in the groups, including examinations, outreach activities, and compliance checks. These databases were developed by the OPR office for the five ITG office field groups and contain information that is not included on the ITG Inventory Database, such as the current status of casework.

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- Document Transmittals<sup>21</sup> (Form 3210) were generally used to transfer all cases from originating to receiving offices. The originating office either prepared the Forms 3210 manually or prepared and printed the Forms 3210 from a template on a local computer.

Because the ITG Inventory Database did not track the status of compliance check cases after cases were sent to field groups, ITG office management decided to manually monitor cases to better control work in progress and reduce the length of time cases are open. During the second quarter of FY 2004, the OPR office began generating a report containing a list of each group's inventory (for example, compliance check and examination cases) for the Director, ITG. This new inventory report is an example of an improvement ITG office management has made to the Database and resulted in a decrease in overall cycle time for compliance checks. The Director called each group manager approximately every 2 months to discuss the group's inventory and progress on cases. One example of why it may be beneficial to call the group manager would be on a case that has been open for an extended period of time because the particular field specialist was working on a higher priority special project. While we recognize there will always be a need for management to conduct workload reviews, enhancement of the ITG Inventory Database structure to include incremental cycle time data would allow for a more targeted discussion and could lead to improved productivity gains. At present, the ITG office captures incremental cycle time on closed cases only. Expanding tracking to include open inventory would improve the currency of cycle time data and allow for an expedited improvement where opportunities are found.

ITG office management advised us they do not plan to expand the functionality of their databases because the TE/GE Division Reporting and Electronic Examination System (TREES) will provide case management, inventory

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<sup>21</sup> Transmittal documents list the specific cases being sent by the originating office and enable the receiving office to confirm receipt of the cases using the same document. The recipient should verify receipt of the specific items listed, sign and date the acknowledgement copy, and mail the acknowledgement copy back to the originator.

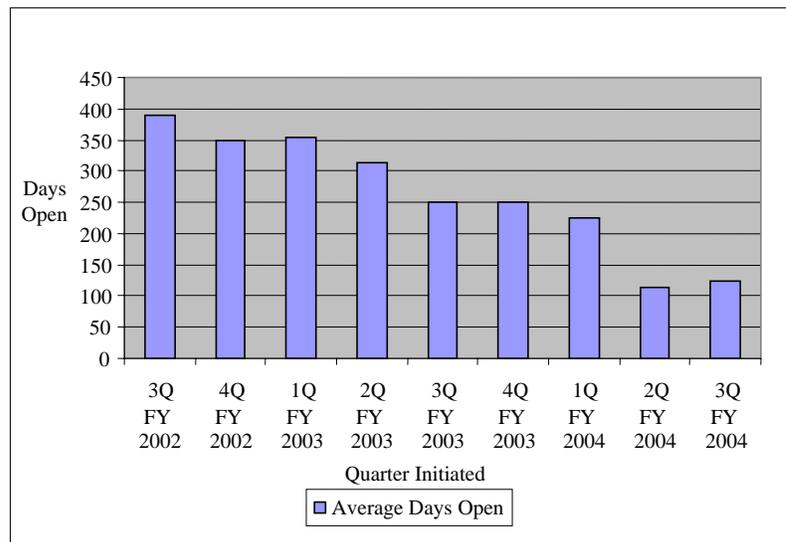
## The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources

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control, and routing capabilities. However, at the time of our review, the TREES was still in development and is not scheduled to be piloted until January 2006. The pilot is scheduled for a limited number of groups within the TE/GE Division and will have only limited capability.

During our FY 2005 audit, we also evaluated the length of time compliance check cases were open from OPR office selection to closure for the population of 476<sup>22</sup> closed compliance check cases in the ITG Inventory Database. We compared the time periods for compliance checks initiated from the third quarter of FY 2002 through the third quarter of FY 2004. Figure 1 reflects the significant decrease in time to complete a compliance check, from an average of 390 days for those initiated in the third quarter of FY 2002 to an average of 123 days for those initiated in the third quarter of FY 2004.

**Figure 1: Closed Compliance Check Cases  
Average Number of Calendar Days Open by Quarter Initiated**



*Source: Analysis of the ITG Inventory Database.*

In evaluating the length of time for the ITG office to complete each step of the compliance check process, we

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<sup>22</sup> There were 481 closed compliance checks in the ITG Inventory Database. Four cases were initiated during FY 2001, and one case was initiated during the fourth quarter of FY 2004, so we dropped them from this analysis.

## The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources

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identified one additional opportunity to further reduce the overall time period. From our sample, we determined the time required to make initial contact with the tribe averaged 108 days for the 19 cases initiated during or after the third quarter of FY 2003. Although the ITG office field specialists normally research IRS databases to obtain the current status of a tribal entity's account before they contact the tribe, the group managers generally expect their field specialists to initiate the cases as soon as possible. One group manager expected the field specialists to initiate new cases within 30 to 45 days of receipt. However, because this time period is not tracked on the ITG Inventory Database, ITG office management was not aware of the extent of these delays in contacting the tribes. ITG office management advised us their practice is to order compliance check cases when their groups need work. There are currently no time standards for the ITG office field specialists to initiate contact with the tribes for compliance check cases.

In our FY 2005 report, we recommended the Director, ITG, require information identified during compliance checks that should be used to update the ITG Database or the IRS Master File to be recorded on the Compliance Check Report and to clarify the expectation of contacting tribes as soon as possible by establishing time standards for the field groups to initiate compliance checks.

### Recommendations

1. The Director, ITG, should clarify the guidelines for field specialists to complete the risk assessment portion of the Compliance Check Report to ensure more consistency and reliability of the risk assessment information.

Management's Response: The Director, ITG, discontinued the practice of ITG Specialists conducting subjective risk assessments and is redesigning the Compliance Check template to focus on an objective assessment of risk.

**The Indian Tribal Governments Office Should Reevaluate the Compliance  
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2. The Director, ITG, should reevaluate the process used for the Compliance Check Program to address the limitations in the Program. In addition, the Director, ITG, should include in one of the planned compliance studies a determination of whether compliance checks are more beneficial for certain market segments or types of customers and which customers may require other compliance efforts.

Management's Response: The Director, ITG reevaluated the Compliance Check Program and is implementing a self-Compliance Check program to conserve ITG resources. In addition, a research plan has been drafted that will attempt to measure the overall effectiveness of Compliance Checks. This study is planned to address a broad question, including whether compliance checks are more beneficial for certain market segments or types of customers and which customers may require other compliance efforts.

## The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources

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### Appendix I

#### Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the Internal Revenue Service Indian Tribal Governments (ITG) office management effectively uses the ITG office Compliance Check Program to understand customers' needs and to identify appropriate remedies to compliance issues.

To accomplish this objective, we:

- I. Determined if the ITG office compliance check process is effective in enabling ITG office management to understand their customers and identify remedies to compliance issues.
  - A. Interviewed ITG office management to determine if they have developed a better understanding of their customers and have identified remedies to compliance issues since beginning the Compliance Check Program in Fiscal Year (FY) 2001.
  - B. Reviewed ITG office work plans, reports, and other applicable documentation to determine if ITG office management has documented a better understanding of their customers and has identified remedies to compliance issues since beginning the Program in FY 2001.
  - C. Determined if ITG office management has a plan for evaluating the accomplishments of the Compliance Check Program.
  - D. Determined if ITG office management is developing voluntary compliance goals for their customer base and, if so, what effect the compliance check process will have on attaining those goals.
- II. Determined if the ITG office compliance check process ensures that the highest priority cases receive compliance checks, based on data analyses and the results of prior compliance checks, and that the needs of tribal customers are addressed to improve voluntary compliance by evaluating the results of two prior Treasury Inspector General for Tax Administration audits.<sup>1</sup>
  - A. Determined if ITG office management's case selection process is effective to identify customers most in need of compliance checks.

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<sup>1</sup> *The Process for Assigning Cases Should Be Strengthened to Provide Better Coverage to Indian Tribal Governments Most in Need of Compliance Checks* (Reference Number 2004-10-191, dated September 2004) and *The Indian Tribal Governments Office Can Improve the Effectiveness, Consistency, and Efficiency of Compliance Checks* (Reference Number 2005-10-158, dated September 2005).

**The Indian Tribal Governments Office Should Reevaluate the Compliance  
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- B. Determined if the compliance check process is effective in obtaining information to understand customers' needs and to identify appropriate remedies to compliance issues.
  - C. Determined if the compliance check process is effective in identifying trends of noncompliance in the ITG office's customer base.
  - D. Determined if compliance check results are used to improve the Compliance Check Program, including a validation of the case selection process.
- III. Determined if the ITG office Compliance Check Program is the best approach for addressing compliance needs of customers.
- A. Identified the approximate number of employee resources expended to achieve goals set for the Compliance Check Program.
  - B. Identified the approximate number of employee resources expended to achieve goals set for the enforcement program.

**The Indian Tribal Governments Office Should Reevaluate the Compliance  
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**Appendix II**

**Major Contributors to This Report**

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**The Indian Tribal Governments Office Should Reevaluate the Compliance  
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**Appendix III**

**Report Distribution List**

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## The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources

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### Appendix IV

#### Previous Treasury Inspector General for Tax Administration Reviews of the Indian Tribal Governments Office Compliance Check Program

##### Closed Audit – Fiscal Year 2004

##### 1. The Compliance Check Program's Workload Selection Process

In Fiscal Year (FY) 2001, the Indian Tribal Governments (ITG) office began performing compliance checks to understand customer needs and to identify appropriate remedies for compliance issues. The ITG office generally identifies compliance check workload by one of three methods: (1) six preset formulas and other criteria<sup>1</sup> are used to rank and assign tribal-related entities for compliance work based on the results of data analyses of tax return and other information of the tribal entity,<sup>2</sup> (2) Indian Tribal government leadership may request a compliance check, and (3) an ITG office field group<sup>3</sup> may initiate a compliance check when it identifies a need for one based on the manager's or field specialist's knowledge of the tribe.

We reviewed the ITG office's computer data for compliance checks as of May 31, 2004, after learning the system of analysis had been redesigned in June 2003. We did not validate the accuracy or completeness of the ITG office's data for the redesigned analysis.

##### Audit Report

*The Process for Assigning Cases Should Be Strengthened to Provide Better Coverage to Indian Tribal Governments Most in Need of Compliance Checks* (Reference Number 2004-10-191, dated September 2004).

##### Status of Management's Corrective Actions

**Recommendation:** The Director, ITG, should provide guidance for field group managers to ensure an appropriate balance of work is requested to achieve the desired number of compliance checks and coverage for their assigned tribes.

**Corrective Action:** To ensure tribes are not underserved and cases that should be worked are ordered, the ITG office has added new management reports that enable the Director, ITG, to ascertain the workload assignments of each group on an ongoing basis. The Director, ITG, will make directed assignments of work if an imbalance among groups is apparent.

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<sup>1</sup> These formulas and criteria are defined in the Outreach, Planning, and Review (OPR) office's FY 2003 Workload Selection Plan and are designed to identify workload based on the annual ITG office Workplan data analyses. The ITG office Workplan is based on market segments that were identified during the data analyses to be areas in need of assistance in complying with the Internal Revenue Code.

<sup>2</sup> Inventory received from the OPR office may consist of any type of compliance work, including compliance checks, tip compliance reviews, and examinations.

<sup>3</sup> ITG office field groups are composed of a manager and field specialists who interact with tribes to perform outreach, education, and examination activities.

## **The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources**

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**Status:** Completed January 19, 2005.

**Recommendation:** The Director, ITG, should gather appropriate data to establish cutoff data scores for the different formulas used in the data analyses, to aid the Office of Outreach, Planning, and Review (OPR) Classification and Delivery Specialist in determining when one formula should take priority over another.

**Corrective Action:** ITG office management will be undertaking a detailed study to determine whether cutoff scores can be identified and will contrast compliance check results from each formula to determine where the optimal results are realized.

**Status:** Completed January 19, 2005.

### **Closed Audit – Fiscal Year 2005**

#### **2. The Execution of Compliance Checks**

This review determined whether the ITG office executes compliance checks effectively and consistently to better understand its customers and to identify appropriate remedies for compliance issues and has developed a method to measure the impact of compliance checks on its customer base. In this second audit, we evaluated the ITG office compliance check process from the assignment of the compliance check to the ITG office field group through the closure of the case by the OPR office.

Because all compliance checks are subject to quality review, we relied on the quality review reports and did not evaluate the quality of the field specialists' work. Additionally, we did not validate the compliance check data in the ITG Database.<sup>4</sup>

#### **Audit Report**

*The Indian Tribal Governments Office Can Improve the Effectiveness, Consistency, and Efficiency of Compliance Checks* (Reference Number 2005-10-158, dated September 2005).

#### **Status of Management's Corrective Actions**

**Recommendation:** The Director, ITG, should correct the data in the ITG Inventory Database for the compliance check cases that were incorrectly recorded as complete and revise the formula in the ITG Database report that calculates the number of completed compliance checks, require information identified during compliance checks that should be used to update the ITG Database or the Internal Revenue Service Master File<sup>5</sup> to be recorded on the Compliance Check Report,

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<sup>4</sup> The ITG Database was developed over the past several years and contains data from the IRS main database (Master File), the Bureau of Indian Affairs, and other sources on Indian tribal governments and their related enterprises. The database records contain more than 200 data fields and include information such as tribal entity data, filing requirements, and line item information from filed returns such as wages paid. The ITG Database is made up in part by the Inventory Database, the Outreach Assignment Database, and the Tribal Compliance Database.

<sup>5</sup> The Internal Revenue Service database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

## **The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources**

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establish time standards to clarify the expectation of contacting tribes as soon as possible to initiate compliance checks, and consider automating the document transmittal process.

**Corrective Action:** ITG office management corrected the data for the compliance check cases that were closed with the incorrect closing code and revised the database formula that calculates the number of completed compliance checks.

**Status:** Completed.

**Recommendation:** The Director, ITG, should require information identified during compliance checks that should be used to update the ITG Database or the IRS Master File to be recorded on the Compliance Check Report. This new requirement would not affect the practice of emailing the information to the OPR.

**Corrective Action:** ITG office management is in the process of revising the ITG work templates. The revised Compliance Check template will include a summary sheet to capture all of the data updates reported during the compliance check.

**Status:** Due January 15, 2006.

**Recommendation:** The Director, ITG, should clarify the expectation of contacting tribes as soon as possible by establishing time standards for the field groups to initiate compliance checks.

**Corrective Action:** The ITG Director issued guidance requiring initial customer contact within 60 days of case assignment to the group.

**Status:** Completed.

**Recommendation:** The Director, ITG, should consider automating the document transmittal process.

**Corrective Action:** Tax Exempt and Government Entities (TE/GE) Division management considered automating the document transmittal process, and decided to address this issue during future development of the TE/GE Reporting and Electronic Examination System.

**Status:** Completed.

The Indian Tribal Governments Office Should Reevaluate the Compliance  
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Appendix V

Management's Response to the Draft Report



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

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MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

  
Steven T. Miller

Commissioner, Tax Exempt and Government Entities

SUBJECT:

The Indian Tribal Governments Office Should Reevaluate  
the Compliance Check Program to Make the Best Use of  
Its Limited Resources (Audit # 200510022)

I am pleased to respond to your report concerning the Compliance Check program  
conducted by our Indian Tribal Governments office (ITG).

This report concludes a comprehensive series of three audits that TIGTA has conducted  
of ITG's Compliance Check program. We appreciate your review of this important  
program, and the recommendations you have made to improve it. We also appreciate  
your observation, at page 3 of the report, that:

The Compliance Check Program developed by the ITG office was effective  
in enabling ITG office management to achieve their initial priorities of identifying  
their customers, obtaining information about the needs of their customer base,  
and developing Government-to-Government relationships with tribal leadership.  
In addition, compliance checks provide valuable information to ITG office  
management that is not obtained through other types of compliance activities.

We concur with this, and feel that the Compliance Check Program has achieved a  
number of important results since it was initiated:

- Compliance Checks completed during the last three fiscal years have resulted in Master File updates by ITG on over 350 entities regarding their filing requirements. This has led to a direct decrease in issuance of erroneous TDIs, which in turn saves substantial Service resources and reduces taxpayer burden.
- Compliance Checks completed during the last three fiscal years have resulted in over 80 Master File updates by ITG to correct entity addresses, saving Service resources in remedying undeliverable mail issues.
- Compliance Checks completed during the last three fiscal years have resulted in the discovery of over 200 tribal entities previously unknown to ITG, and not properly coded on Master File for the correct BOD and Employment codes. This not only ensures that workload for these entities is properly referred to ITG and

## The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources

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correctly identified by SBSE Collection, but also ensures that the entities do not receive Service notices that do not apply to them. It also ensures that the entities are included in the ITG workload selection database, and therefore improves horizontal equity for all ITG customers.

- The Compliance Check process led to the discovery of a systemic problem involving FUTA filing by tribes. This led to reprogramming of the FUTA Notice process, mass updates of more than 1100 entities for their Form 940 filing requirements and 276 manual refunds for erroneous payments of FUTA by tribal entities, and/or closures of erroneously issued TDIs.
- The analysis of Compliance Check results led to the development and testing of a process to empower certain tribes to conduct their own Compliance Checks. Two tribes are currently testing the process prior to anticipated national implementation this fall. This initiative has the potential to save Service resources and to allow ITG to focus its efforts on tribal entities that are unable to conduct their own Compliance Checks, or that do not meet the eligibility requirements for doing so.
- Important byproducts of the Compliance Check program include the establishment of effective relationships and good communications between ITG Specialists and ITG's customers, and the resulting willingness of ITG customers to contact ITG specialists when they need information or assistance. This is an especially important development since the customer base was not always well served or properly approached in the past.

Finally, we note that one portion of the report focuses on the assignment of "risk" assessments by ITG Specialists during the completion of Compliance Checks. The report notes that ITG identified inconsistencies in such assessments, and it cites several examples of inconsistencies identified by TIGTA as well. Given these inconsistencies, and the difficulty of eliminating them, ITG has concluded that it should cease collecting subjective assessments and rely instead on purely objective information. ITG therefore has begun to redesign its Compliance Check template with that goal, and several others, in mind.

### **RECOMMENDATION 1:**

The Director, ITG, should clarify the guidelines for field specialists to complete the risk assessment portion of the Compliance Check Report to ensure more consistency and reliability of the risk assessment information.

### **CORRECTIVE ACTION 1:**

We have discontinued the "risk" designation by ITG Specialists. Analysis revealed that there were widespread inconsistencies in the determination of risk due to the subjective nature of this designation. We decided to rely instead on objective determinations. Further, ITG customers are beginning to conduct self-Compliance Checks. These

## The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources

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developments require us to redesign the Compliance Check template. The revised templates (both the internal and self-Compliance Check versions) will focus on objective assessments only. Risk assessment guidelines are therefore no longer required.

**IMPLEMENTATION DATE:**

Not Applicable

**RESPONSIBLE OFFICIAL:**

Director, Indian Tribal Governments, Tax Exempt and Government Entities

**CORRECTIVE ACTION MONITORING PLAN:**

Not Applicable.

**RECOMMENDATION 2:**

The Director, ITG, should reevaluate the process used for the Compliance Check Program to address the limitations in the Program. In addition, the Director, ITG, should include in one of the planned compliance studies a determination of whether compliance checks are more beneficial for certain market segments or types of customers and which customers may require other compliance efforts.

**CORRECTIVE ACTION 2:**

The ITG function has completed a reevaluation of the Compliance Check Program and is implementing a self-Compliance Check program that will conserve ITG resources devoted to this process.

With regard to the planned compliance study, ITG has drafted a research plan to attempt to measure the overall effectiveness of Compliance Checks. This study is planned to address a broad question that subsumes the narrower issue suggested for study in Recommendation 2.

**IMPLEMENTATION DATE:**

The study will be completed by October 15, 2006.

**RESPONSIBLE OFFICIAL:**

Director, Indian Tribal Governments, Tax Exempt and Government Entities.

**CORRECTIVE ACTION MONITORING PLAN:**

The Director, Indian Tribal Governments, will report on the progress of the research plan as part of quarterly operational reviews of the Government Entities function.