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

COMMISSIONER

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MEMORANDUM FOR PAMELA GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Response to Treasury Inspector General for Tax Administration (TIGTA) Draft Report – Improvements in the Quality Review Program of Large Corporate Examinations are Needed to Demonstrate Its Effectiveness (Audit No. 200030002)

Thank you for the opportunity to respond to your draft report titled "Improvements in the Quality Review Program of Large Corporate Examinations are Needed to Demonstrate Its Effectiveness." We have reviewed the attached draft report, transmitted by your memorandum dated August 21, 2000. Your office made several important recommendations that we agree should be addressed in our continuing efforts to improve the Quality Review Program in LMSB. In general, we believe that the establishment of the Office of the Director, Quality Assurance and Performance Management, has either already effectively addressed or will soon address the concerns in the draft report.

Our comments on the specific recommendations in this report are as follows:

IDENTITY OF RECOMMENDATION #1
Establish goals and objectives for the CEP quality review program that define expected outcomes and serve as the basis for measuring success of the program.

ASSESSMENT OF CAUSE(S)
We agree that the previous CEP Peer Review Process did not have documented goals and objectives. However, each participant in the CEP Peer Process knew of the goals and objectives of the process.

CORRECTIVE ACTIONS
With the creation of our new organization, we have established the position of Director, Quality Assurance and Performance Management, with an executive and staff to

accomplish its goals and objectives. The mission of this office is to add value to the overall LMSB operation by:

- Providing all levels of the organization with assessments of operational effectiveness, of both in-process and examined cases.
- Identifying "best in class" practices.
- Evaluating and promoting those practices among the industry groups.

These quality reviews in LMSB (known as LQMS Reviews) will measure the quality of examinations, not evaluate the performance of an individual or team. We will use the data to identify systems changes, training and educational needs, and improve work processes.

IMPLEMENTATION DATE:
January 2, 2001

RESPONSIBLE OFFICIAL(S)
Commissioner, LMSB
Director, Quality Assurance & Performance Management

IDENTITY OF RECOMMENDATION #2
Develop a planning document establishing the objectives of individual CEP Peer Reviews.

ASSESSMENT OF CAUSE(S)
We agree there were no detailed plans for conducting reviews. However, we trained data gatherers and used the case record/checksheet as a plan for the review. Most CEP Peer Review Oversight Committee members who actually did the analysis and reporting knew of the peer review process from prior review cycles. They did not believe they needed a detailed plan. We agree that while the sample selection and issues selected for review varied between CEP Peer Reviews, the data they gathered was generally comparable.

CORRECTIVE ACTIONS
We have developed a planning document (*LMSB's Balanced Measures Task Force Final Report* dated December 15, 1999) to establish the objectives of individual CEP peer reviews. Until recently, the objective of LQMS was to provide a statistically valid measure of the quality of LMSB examinations at either the Division or Industry Level. We plan to increase staffing to ensure that a statistically valid measure of quality will be achieved at the Industry Level for each of three milestones:

- Milestone 1: Examination Plan Approval Date
- Milestone 2: Application of 50% of Planned Time
- Milestone 3: Revenue Agent Report Completion Date

Our written planning document explains the reason for the reviews, defines the scope of each review, outlines objectives, and provides for the methodology for conducting the review.

As previously mentioned, the LQMS Review is a quality measurement process that is a part of the overall function of the Office of Quality Assurance and Performance Management. We will analyze quality measurement data gained from LQMS Reviews to determine appropriate corrective actions. The quality data will be used by the Performance Management function in the quality assurance process. Finally, the Innovation and Design function will use quality data in recommending better ways to accomplish examinations.

IMPLEMENTATION DATE:
January 2, 2001

RESPONSIBLE OFFICIALS
Commissioner, LMSB
Director, Quality Assurance & Performance Management, LMSB

IDENTITY OF RECOMMENDATION #3
Develop a system to track findings and recommendations identified during the CEP Peer Reviews

ASSESSMENT OF CAUSE(S)
We agree we had no formal or structured follow-up system. When we conducted Regional and National Office Program Reviews, we included follow up actions. The IRS established various task forces to consider what needed improvements should result from observations made during the CEP Peer Review Process.

CORRECTIVE ACTIONS
It should be noted that presently the Office of Quality Assurance and Performance Management is in the process of developing a system to track findings and recommendations identified during LQMS Reviews. The first LQMS reviews will be conducted beginning January 2, 2001, and management information reports will be generated on a quarterly basis beginning in April. We expect the following components in the tracking system will be functional by May 1, 2001:

- recommendations,
- responsible officials,
- planned completion dates of corrective actions,
- actual completion dates, and
- comments as to changes or delays regarding the recommendation.

IMPLEMENTATION DATE:
May 1, 2001

RESPONSIBLE OFFICIALS
Commissioner, LMSB
Director, Quality Assurance & Performance Management, LMSB

IDENTITY OF RECOMMENDATION #4
The Director, Quality Assurance and Performance Management, should develop a system for tracking the CEP Peer Review costs, including staffing, travel, overhead, and other related expenditures.

ASSESSMENT OF CAUSE(S)
We agree the prior CEP Peer Review Process did not include a system for adequately tracking and measuring costs. The members of CEP Review Teams performed these reviews on a detail or temporary assignment basis, and we only tracked travel costs. We did not try to compute other costs of the reviews such as staffing, salaries, overhead, or other related expenditures.

CORRECTIVE ACTIONS
With the establishment of three Coordinated Industry Review Groups staffed with managers and reviewers and dedicated to the sole objective of conducting quality reviews, we will be able to fully account for not only travel costs, but also salary expense and time devoted to our reviews. As your draft report states, we would then be able to evaluate whether the review program is cost beneficial. In addition, we agree the program costs would be very helpful in developing fiscal budget plans.

IMPLEMENTATION DATE:
January 2, 2001

RESPONSIBLE OFFICIALS
Commissioner, LMSB
Director, Quality Assurance & Performance Management, LMSB

In summary, we appreciate the opportunity to provide our comments in response to the proposed draft report you plan to issue. We believe our current efforts in establishing an effective Office of Quality Assurance and Performance Management will effectively address and implement the recommendations your office has made regarding the CEP Peer Review Process.

If you have any questions or need additional information, please call me, or a member of your staff may contact Director, Quality Assurance and Performance Management Arlene Kay at (202) 283-8334.