Department of the Treasury

ANNUAL AUDIT PLAN
FISCAL YEAR 2004

Treasury Inspector General for Tax Administration

Office of Audit

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Fiscal Year 2004 Annual Audit Plan

MESSAGE FROM THE DEPUTY INSPECTOR GENERAL FOR AUDIT

The Treasury Inspector General for Tax Administration's (TIGTA) Office of Audit, established in 1999, is responsible for evaluating the Internal Revenue Service's (IRS) programs. The Office of Audit's Fiscal Year (FY) 2004 Annual Audit Plan presents an audit program that will assess areas related to the major challenges facing the IRS, the IRS' systems modernization efforts, and the IRS' strategic goals and objectives. In addition, the Office of Audit will perform audits required by statute, as well as address areas of concern to the Congress, the IRS Oversight Board, and other interested parties.

The TIGTA believes that the challenges that IRS management has faced in the last few years will continue to impede the IRS' programs. Some of these issues are also concerns of the President, as cited in *The President's Management Agenda.*[1] In addition, the IRS and the General Accounting Office (GAO) have listed some of the issues as material weaknesses in IRS programs. Therefore, the Office of Audit's FY 2004 planned audits will focus on many of these issues.

Modernization of the IRS' computer systems is a primary concern because it affects so many other areas. For example, the tax filing season activities, customer service, and improved budget and financial accounting, which are also major challenges, all rely heavily on the successful implementation of new computer systems. New computer systems could also increase the speed and accuracy of many of the IRS program activities.

Security is another major interest. Recent events, such as: the power blackout in the Northeast, the September 11, 2001, terrorist attacks, the anthrax mail threats, and attacks by computer worms and viruses, illustrate all too graphically the vulnerability of the IRS' infrastructure, computer systems and other equipment, taxpayer data, and employees. Security breaches could be orchestrated by many different types of individuals, (e.g., computer hackers, unhappy taxpayers, disgruntled employees, and terrorists), or the loss of taxpayer data could result from natural disasters. Although the IRS has taken some steps to improve security, it remains a major challenge.

Continued concern about the IRS' financial statements and related activities, plus implementation of Government Performance and Results Act of 1993 (GPRA)[2] processes and procedures, cause the TIGTA to keep these issues on its list of IRS challenges. In a

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[1] *The President's Management Agenda, Fiscal Year 2002;* http://www.whitehouse.gov/omb/budintegration/pma_index.html.

[2] Government Performance and Results Act of 1993 (GPRA), Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

recent audit report,[3] the GAO noted that many of its recommendations related to the IRS' financial operations remain open. The GAO added that the continued existence of these problems exposes the IRS to loss due to errors or theft, and impairs the reliability and availability of current, accurate financial information that management needs to make decisions on a day-to-day basis. Nevertheless, the Office of Management and Budget recognizes that the IRS has made some progress in developing outcome measures and is working to rationalize its budget structure. However, the IRS remains at risk in these areas.

The four IRS operating divisions -- Wage and Investment, Small Business/Self-Employed, Large and Mid-Size Business, and Tax Exempt and Government Entities -- focus primarily on helping taxpayers understand the tax laws, processing tax returns and refunds, and enforcing compliance with the tax laws. Overall, the Tax Year 2003 filing season was very successful; however, the Office of Audit identified some areas that could be improved. For example, walk-in and telephone assistance provided inconsistent service, and some new tax laws were not properly implemented. In addition, the administration of the Earned Income Tax Credit continues to pose problems for the IRS. For this reason, processing returns and implementing tax law changes during the filing season, providing quality customer service operations, and making erroneous and improper payments remain on the TIGTA's list of major challenges facing the IRS' management.

Compliance, too, remains a serious problem, as gross accounts receivable continued to rise during the past fiscal year. On the other hand, some improvements have been noted in both the Examination and Collection functions. Despite a downward trend in staffing in both functions, the number of examinations increased in some categories, as did enforced collections, including liens, levies, and seizures.

The Office of Audit is committed to ensuring that it meets the TIGTA's strategic goal of improving the efficiency and effectiveness of tax administration by focusing its audit program and resources on the fundamental goals related to the IRS' mission. To achieve this goal, the majority of the Office of Audit programs focus on the major management challenges facing the IRS and the IRS' progress in achieving its strategic goals.

More information on specific IRS programs and the Office of Audit's FY 2004 coverage of those programs is included in the section entitled Office of Audit's Program Areas.

Pamela J. Gardiner
Deputy Inspector General for Audit

[3] *Internal Revenue Service: Status of Recommendations From Financial Audits and Related Financial Management Reports*; GAO-03-665; May 2003.

THE MISSION AND THE ORGANIZATION

The Internal Revenue Service's (IRS) Restructuring and Reform Act of 1998 (RRA 98)[1] established the Treasury Inspector General for Tax Administration (TIGTA) with the powers and authorities given to other Inspector General organizations under the Inspector General Act.[2] With its focus devoted entirely to the IRS, the TIGTA is charged with conducting independent and objective audits, evaluations, and investigations of the IRS' programs and activities. The TIGTA is organizationally placed within the Department of the Treasury, but it is independent of the Department and all other offices and agencies within the Department. The TIGTA is committed to providing timely, useful, and reliable information and advice to IRS officials, including its Chief Counsel, the Department of the Treasury, the IRS Oversight Board, the Congress, and the public.

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

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

The AIGAs advise the DIGA on the major risks facing the IRS in their respective program areas, and annually propose a national audit plan based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses. In addition, to keep apprised of operating conditions and emerging issues, the AIGAs maintain liaison and working contact with applicable IRS executives, Department of Treasury and General Accounting Office officials, and Congressional staffs.

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[1] Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[2] Inspector General Act of 1978, 5 U.S.C.A. app. 3 (West Supp. 2003).

AUDIT PROGRAM FOR FISCAL YEAR 2004

The Annual Audit Plan communicates the Treasury Inspector General for Tax Administration's (TIGTA) audit priorities to the Internal Revenue Service (IRS), the Congress, and other interested parties. Many of the activities described in the Annual Audit Plan address the fundamental goals related to the IRS' mission to administer its programs effectively and efficiently.

The Office of Audit's Fiscal Year (FY) 2004 Annual Audit Plan is organized around the IRS' core business activities. Emphasis is placed on the mandatory coverage imposed by the IRS Restructuring and Reform Act of 1998 (RRA 98)[1] and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial statement audits. In addition, audits of the Taxpayer Assistance Centers (TAC), as required by an amendment to the Treasury spending bill[2] for FY 2002, will continue through the first quarter of the fiscal year. The IRS' modernization efforts will also be closely monitored to identify problems in implementing important programs and improving customer service.

The balance of the Office of Audit's body of work is discretionary and will focus on the major management issues facing the IRS, the IRS' progress in achieving its strategic goals and eliminating identified material weaknesses, and the IRS' response to *The President's Management Agenda* initiatives. In addition, audits will address areas of concern to the IRS Commissioner, the Secretary of the Treasury, the IRS Oversight Board, the Congress, and other stakeholders.

To identify the Office of Audit's FY 2004 discretionary audit coverage, the Office of Audit developed strategic planning questions to focus the audits on the most important tax administration issues. The primary questions, tailored to the key IRS issues, have been classified as "Level I," and are designed to give the Office of Audit the ability to answer, with a high degree of confidence, the key questions that IRS management and external stakeholders are asking, and provide a clear context for the majority of the audits. Some factors considered when developing the Level I questions include: the IRS' Strategic Planning framework, the TIGTA's assessment of the IRS' major management challenges, and the General Accounting Office's high-risk areas for the IRS. The six Level I questions are:

1. Is the IRS effective in maximizing taxpayer compliance?
2. Is the IRS improving its customer service to every taxpayer in every interaction?

[1] Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[2] Treasury and General Government Appropriations Act, 2002 H.R. 2590.

3. Is the IRS advancing financial and management reforms, including *The President's Management Agenda*?
4. Is the IRS sufficiently modernizing its information technology and providing the intended benefits to taxpayers, such as e-services?
5. Is the IRS adequately supported with timely, economical, and effective information and services?
6. Is the IRS adequately protecting its employees, facilities, data, and systems?

The Level I questions are, by design, very broad, and answering them could require work in various IRS divisions/functions by more than one Office of Audit business unit. For this reason, each Assistant Inspector General for Audit (AIGA) is taking the lead in coordinating the work needed to answer one of the Level I questions. Further, because no audit organization has the resources to focus on ***every*** issue ***all*** the time, the Office of Audit will initially focus ***primarily*** on the first four questions.

Second and third layers of questions, called Levels II and III, are more detailed and will enable the Office of Audit to design specific audit work to answer the more broad Level I questions. These more detailed questions were designed to be within the control of the AIGAs.

Identifying audits that will answer the Levels I, II, and III questions requires incorporating a risk assessment process that integrates professional judgment into assessing the probability that adverse conditions or events may occur and applying risk factors to key auditable areas in the IRS. Some factors used in evaluating the risks associated with the IRS' auditable areas are: stakeholder concerns, impact of new programs and tax legislation, reliability of internal control systems, and past audit results. Input from TIGTA executives and top-level IRS management, current workload, and other factors are also considered before a final decision is made on which audits will be conducted.

A listing of the TIGTA's identification of the major management challenges facing the IRS in FY 2004 is included as Appendix II. The IRS' goals and the strategies for attaining those goals are highlighted in Appendix III. Key initiatives of *The President's Management Agenda* are included as Appendix IV.

The Office of Audit's planned FY 2004 audits have been related to the management challenges, the IRS' major strategies, *The President's Management Agenda* initiatives, and the strategic planning questions. The graphs in Appendices V, VI, VII, and VIII illustrate the FY 2004 resources that will address the audits as they correlate to each. Appendix IX shows the resources planned for statutory versus discretionary audits.

OFFICE OF AUDIT'S PROGRAM AREAS

The following narratives briefly describe the state of some of the Internal Revenue Service's (IRS) major programs and the Office of Audit's Fiscal Year (FY) 2004 Audit Program that will further assess those programs.

Information Systems Programs

Modernizing technology has been an ongoing challenge for the IRS. The current Business Systems Modernization (BSM) effort, which began in 1999, is expected to last 10 to 15 years at a cost of $7 to $10 billion. In addition to establishing and executing a program to modernize the IRS' core business systems, the BSM's strategic plan includes providing an infrastructure that is sufficiently flexible to adapt to evolving business needs and that can be efficiently managed. The IRS' goal of providing high-quality, efficient, and responsive information services to its operating divisions is heavily dependent on this modernization of its core computer business systems while maintaining the existing systems. It is also reliant on the security of those systems and the buildings that house those systems, as well as the safety of the people who operate the computers.

The IRS hired the PRIME[3] contractor to develop and integrate the BSM projects, and through FY 2003, has paid them about $1.35 billion on BSM. Progress has been disappointingly slow, and although FY 2003 -- the fifth year of the modernization program, was considered a "critical" year -- few projects were deployed. Those projects -- improved telephone capacity and routing, a corporate taxes computation application, refund information and employer identification number requests via the Internet, an Automated Human Resources (known as HR Connect) System, and the first release of a web-based infrastructure -- were substantially over budget and delivered less functionality than originally planned. First releases of the Customer Account Data Engine, the Integrated Financial System, the Custodial Accounting Project, and E-Services are also planned for deployment in the latter part of Calendar Year 2003.

Despite the costs and delays, the IRS has made some progress. For example, the IRS is improving management processes and its capacity for oversight, and received the Software Acquisition-Capability Maturity Model Level 2 rating.[4] In addition, the

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

[4] The Software Acquisition Capability Maturity Model was developed by the Software Engineering Institute and is a widely recognized industry standard for effectively and efficiently acquiring or procuring information technology projects and systems. The Level 2 rating indicates that the IRS has documented its project management processes so that they could be repeated by future project teams.

Internet Refund program was very successful, getting some 15 million hits during the 2003 Filing Season. Still, the BSM is at risk. Continued delays and cost overruns could cause the Congress to reduce or withhold funds, delivered projects may not provide anticipated benefits, and the PRIME contractor is not providing skills and discipline needed to be successful.

Systems security, including controls over the perimeter, the infrastructure, and the applications that guard sensitive data, remains weak. TIGTA audits during the past three years identified the main reasons for these weaknesses as inadequate accountability, security awareness, and training for key security employees. The underlying causes, however, are management and operational issues, not technical. The IRS has focused on the technical solutions, but put little effort into management and operational concerns. Thus, the end result is an organizational culture that does not appear to place strong emphasis on the security and privacy of taxpayer data.

Like modernization, IRS actions around systems security are encouraging. Three governance committees have aligned to get management involved; however, the new IRS Commissioner and Chief Information Officer are re-evaluating this governance structure. The Business Units are also reviewing their systems this year for the first time. Furthermore, even though the IRS has not yet completed its Critical Infrastructure Protection Plan required by *The Policy on Critical Infrastructure Protection*, Presidential Decision Directive 63, dated May 1998, it has identified its critical cyber assets and has taken significant steps to protect them. Although some areas need improvement, the IRS has recognized them and has adequate plans in place to address the issues. These issues include completing risk mitigation activities, implementing the Business Continuity Plan, protecting the infrastructure, obtaining the necessary training for key security employees, and improving security awareness by all employees with access to critical systems. Two other areas, however, have not been adequately addressed. First, the IRS has not coordinated with more than 250 Federal and state agencies in order to determine the impact if the data it provides could not be obtained during an emergency, and it has not determined the value of information received from many Federal and state agencies. Secondly, the IRS has not determined the resources needed to protect its critical assets.

Thus, the IRS remains vulnerable, and will likely continue to be at risk throughout the life of its technology modernization projects. The TIGTA will continue to assess the IRS' efforts at managing those risks. The TIGTA will also review the IRS' computer security efforts that deal with detection and prevention activities. Overall, the FY 2004 work planned in Information Systems Programs will position the TIGTA to meet the IRS Restructuring and Reform Act of 1998 (RRA 98)[5] requirement for reporting annually on the adequacy and security of IRS technology. A complete list of the Program's planned audits and audit objectives is included in Appendix X.

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

Headquarters Operations and Exempt Organizations Programs

The Headquarters Operations and Exempt Organizations Programs evaluates several IRS programs, including Financial Management and Operations, the Government Performance and Results Act of 1993 (GPRA)[6] the Criminal Investigation (CI) function, the Office of Tax Administration Coordination, Tax Exempt and Government Entities (TE/GE) Division, and the Agency-Wide Shared Services (AWSS) function. The Office of Audit will be reviewing programs in each of these organizations.

For the third consecutive year, the IRS was able to produce financial statements covering its tax revenue and administrative activities that are fairly stated in all material respects. However, many of IRS' longstanding systems and internal control weaknesses continued to exist, necessitating continued reliance on costly compensating processes, statistical projections, external contractors, substantial adjustments, and monumental human efforts to prepare a set of reliable financial statements.[7] The President has expressed concern about the financial management of Government agencies and believes that, without accurate and timely financial information, it is not possible to secure the best performance and highest measure of accountability for the American people.[8]

Along with financial accountability, the Federal Government has a stewardship obligation to prevent fraud, waste, and abuse and to use tax dollars appropriately. The Office of Procurement, a key partner in delivering the IRS mission, awards and manages obligations that amount to nearly 20 percent of the IRS budget. Most mission critical programs rely on contract support. Competitive sourcing, another initiative in *The President's Management Agenda*, will increase the Office of Procurement's workload. Additionally, congressional concerns have been raised regarding the propriety of payments to Government contractors.

The GPRA, too, is intended to increase agency accountability and improve the quality and delivery of Government services. The GPRA holds Federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement. Federal agencies are required to prepare multi-year strategic plans, annual performance plans, and annual program performance reports. The Federal Financial Management Improvement Act of 1996 (FFMIA)[9] requires Inspectors General to report

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[6] Government Performance and Results Act of 1993, 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.).

[7] *United States General Accounting Office Report to the Secretary of the Treasury – IRS's Fiscal Years 2002 and 2001 Financial Statements*, November 2002.

[8] *The President's Management Agenda, Fiscal Year 2002;* http://www.whitehouse.gov/omb/budintegration/pma_index.html.

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

instances and reasons when an agency does not meet target dates set forth in its remediation plan. Past TIGTA and General Accounting Office audits have determined that the IRS is not in total compliance with the GPRA and the FFMIA.

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

The Office of Audit's Tax Administration program area includes IRS offices that report directly to the IRS Commissioner, including the Taxpayer Advocate Service, Office of Chief Counsel, Appeals, and Communications and Liaison. The National Taxpayer Advocate endeavors to identify and respond to taxpayer concerns, and advocates changes in law or procedures to reduce taxpayer burden. The Chief Counsel's strategic objective includes providing expanded guidance and increased legal support to IRS units while the Appeals' goal is to ensure that taxpayers are aware of their appeals rights. The Governmental Liaison and Disclosure Division oversees the confidentiality rights of taxpayers while addressing the public's right to access information. For example, this office ensures that taxpayer information is not disclosed to third parties without proper authorization, information requested under the Freedom of Information Act[10] is released, and taxpayers' rights are protected.

The IRS' TE/GE Division encompasses several organizations, including Employee Plans; Exempt Organizations; Federal, State and Local Governments; Indian Tribal Governments; and Tax Exempt Bonds. These organizations face many different types of issues, ranging from the safety of investments in employee plans to political activities of churches and gambling excise taxes. The overriding mission of each organization, however, is to provide top-quality service by helping each segment understand and fulfill its tax obligations.

Like the TE/GE Division, the AWSS function has a broad spectrum of activities, including security, rent, facilities and records management, personnel services, equal employment and diversity, procurement, etc. Security of IRS employees, records, and facilities is of major concern, especially after the September 11, 2001, terrorist attacks and the subsequent anthrax scare. Besides security, human capital issues include the implementation of the new HR Connect System, accurate and timely processing of

[10] Freedom of Information Act (FOIA), 5 U.S.C. § 552 (1994 & Supp. IV 1998).

personnel and payroll transactions, upgrading of some positions, cross-functional training, and union activities. Space costs are also of great concern.

The TIGTA will assess operations in many of these offices during FY 2004. A complete list of the Program's planned audits and audit objectives is included in Appendix XI. Two audits address statutory requirements related to the IRS' financial statements and other financial reports.

Wage and Investment Income Programs

The IRS' Wage and Investment (W&I) Division serves approximately 122 million customers, accounting for 94 million returns. These taxpayers file a Form 1040 tax return with no accompanying Schedules C, E, F, or Form 2106 and have no international activity. Third parties report most of the income for this group, and the vast majority of taxes are collected through third-party withholding. Most of these taxpayers are highly compliant and deal with the IRS only when they file their tax returns. Approximately 80 percent receive refunds. Compliance issues that do occur are often the result of a taxpayer's confusion and are usually detected through technology-based matching programs. Over half these taxpayers prepare their own tax returns, presenting a great opportunity for the W&I Division to provide top quality service to a large number of taxpayers who otherwise would not receive assistance.

The W&I Division strives to maintain a "customer-first" focus through routinely soliciting information concerning the needs and characteristics of its customers and implementing programs based on the information received. It partners with other Federal agencies, financial institutions, tax preparers, community groups, trade organizations, state and local authorities, and others to provide one-stop multi-agency tax information and education services to its customers. The W&I Division attempts to increase voluntary compliance rates through a strategy that includes education, outreach, and risk-based programs. Thus, the W&I Division should be positioned to provide professional and courteous service to customers to help them understand and meet their tax obligations.

The Office of Audit's FY 2004 audit program will address the W&I Division's attempts to meet its goals and objectives. Specifically, audits will measure the Customer Assistance, Relationships and Education's success in meeting its mission to help these taxpayers understand the tax laws so that they can fulfill their tax obligations. Audits will also evaluate the Customer Account Services' processing of these taxpayers' returns, including assuring that new laws are properly incorporated into the process. In addition, other reviews will focus on Compliance's enforcement of the tax laws, including identifying those taxpayers who have not reported the proper amount of tax or have not fully paid their tax bill. Audits will also address the administration of the Earned Income Tax Credit and Advanced Earned Income Tax Credit. At the same time, the Office of Audit will assess the W&I Division's goal to minimize the burden on taxpayers and protect their privacy.

In addition to assessing the W&I Division's prefiling and filing season plus the status of compliance efforts, the TIGTA's planned audits will satisfy statutory requirements of the RRA 98. A complete list of the Program's planned audits and audit objectives is included in Appendix XII.

Small Business and Corporate Programs

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

The approximately 33 million self-employed and supplemental income earners serviced by the SB/SE Division have substantially higher incomes and file twice the number of forms and schedules than the W&I taxpayers. Thus, these taxpayers often spend more time working on their taxes or relying more frequently on paid tax preparers or IRS expertise. The SB/SE Division also serves about 7 million small businesses, including corporations and partnerships with assets of $10 million or less. While many of these taxpayers face the same tax issues as large corporations, they often do not have tax professionals on staff. Their tax compliance issues frequently stem from a lack of understanding of tax law requirements, inadequate accounting practices, or resources and cash flow problems. In addition, the SB/SE Division services taxpayers filing estate and gift returns or fiduciary returns, plus individuals with international tax returns. The SB/SE Division's employees focus on its mission of providing top quality service tailored to this taxpayer segment.

The LMSB Division serves a small group of taxpayers -- less than 200,000 corporations, subchapter S corporations, and partnerships with assets greater than $10 million. Many of the taxpayers in this group have a tax staff, and the issues the IRS faces in its contacts with these taxpayers are much more complicated than its dealings with the W&I and SB/SE taxpayers. For example, the IRS must effectively deal with globalization, abusive tax shelters, offshore tax havens, and industry specialization. Some of these issues are extremely difficult to address. Abusive tax shelters, for instance, are estimated to be a $10 billion tax issue, and transactions are frequently legally complex and dependent on exploitation of legal loopholes.

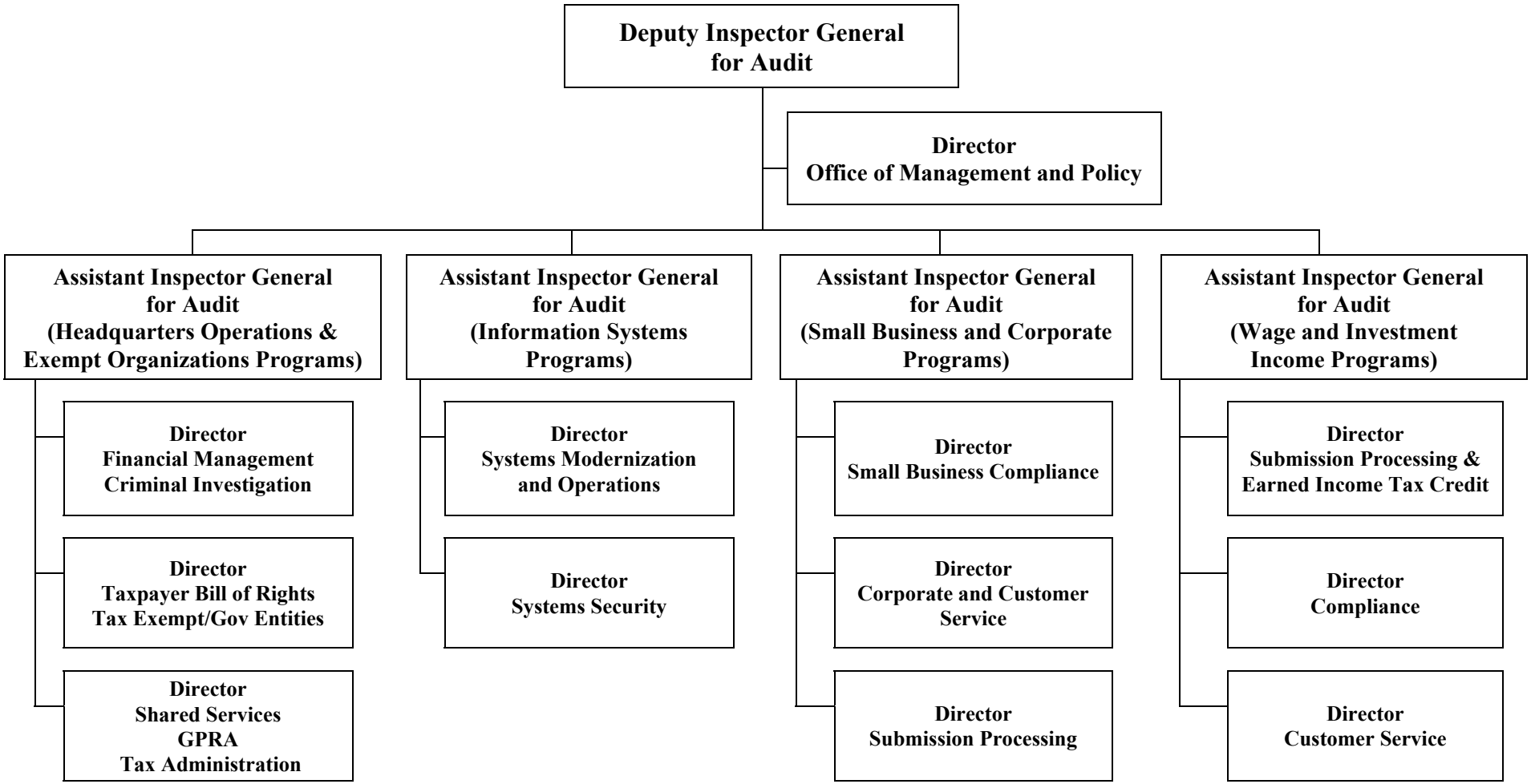
The SB/SE Division is endeavoring to revise its compliance program by re-engineering its examination and collection practices. Some improvements have been noted. For example, the number of individual tax examinations increased during FY 2002 even though staffing was down. Examinations of individual taxpayers with income over $100,000 increased some 23 percent. Collection efforts also continued to improve even though staffing decreased by about 8 percent. Enforcement actions, such as liens,

levies, and seizures, also increased significantly since FY 2001. Still, gross accounts receivables increased by about 1.4 percent.

Like the SB/SE Division, the LMSB Division is struggling with examination productivity and human capital issues. For example, the IRS annually examines roughly 18,000 Industry Cases (IC) tax returns. Trends from these examinations show that the number of hours spent on IC examinations is increasing while the dollars recommended for assessment are decreasing. Moreover, the length of examinations is increasing, taxpayers are agreeing to fewer recommended assessments at the examiner level, and a significant number of examinations are closed with no additional recommended taxes. Besides the Examination Program difficulties, the IRS may never be able to significantly improve its services and operations devoted to large corporations unless it is able to take full advantage of the efficiencies offered by electronic filing. Despite positive organizational changes and re-engineered business processes, without electronic filing, a wide gap will likely remain between the IRS' performance and the large corporate taxpayer expectations for efficient, modern service.

During FY 2004, the TIGTA's Small Business and Corporate Programs will concentrate on assessing the IRS' efforts to deal with these and other issues. Three audits will address statutory requirements of the RRA 98. A complete list of the Program's planned audits and audit objectives is included in Appendix XIII.

Appendix I


Deputy Inspector General for Audit
Director Office of Management and Policy
Assistant Inspector General for Audit (Headquarters Operations & Exempt Organizations Programs)
Assistant Inspector General for Audit (Information Systems Programs)
Assistant Inspector General for Audit (Small Business and Corporate Programs)
Assistant Inspector General for Audit (Wage and Investment Income Programs)
Director Financial Management Criminal Investigation
Director Taxpayer Bill of Rights Tax Exempt/Gov Entities
Director Shared Services GPRA Tax Administration
Director Systems Modernization and Operations
Director Systems Security
Director Small Business Compliance
Director Corporate and Customer Service
Director Submission Processing
Director Submission Processing & Earned Income Tax Credit
Director Compliance
Director Customer Service

Appendix II

MAJOR MANAGEMENT CHALLENGES FACING THE INTERNAL REVENUE SERVICE

The Treasury Inspector General for Tax Administration's (TIGTA) Office of Audit believes the major management challenges facing the Internal Revenue Service (IRS) in Fiscal Year 2004 are:

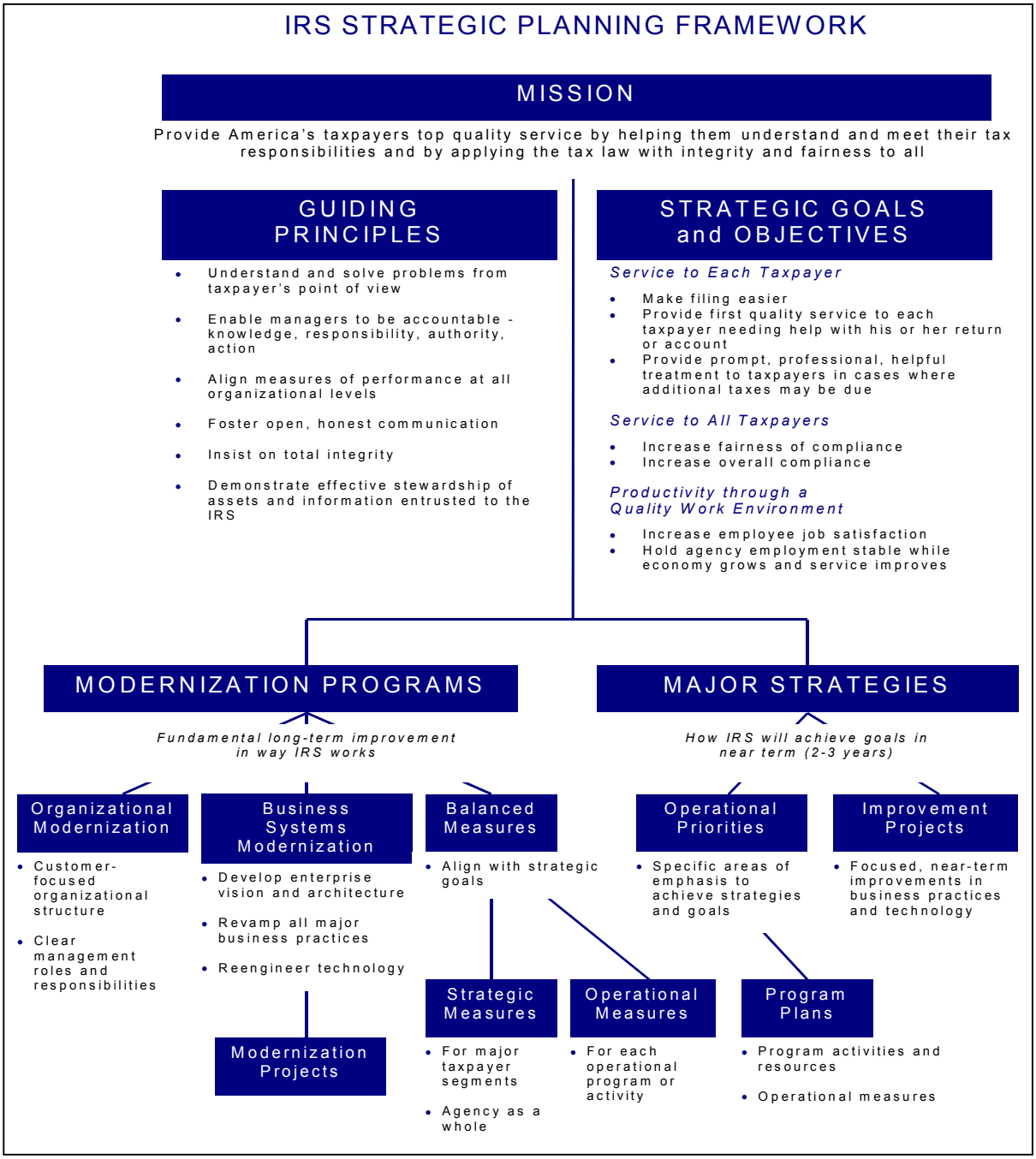
- Systems Modernization of the Internal Revenue Service.
- Tax Compliance Initiatives.
- Security of the Internal Revenue Service.
  - The Employees and the Facilities.
  - The Information Systems.
- Integrating Performance and Financial Management.
  - Performance Management.
  - Financial Management.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

The TIGTA's FY 2003 annual summary of these issues, including comments on progress the IRS has made toward resolving the challenges or the vulnerabilities that the IRS continues to face in achieving results, may be viewed on the Internet at the following address:

http://www.treas.gov/tigta/annual_audit_plans.htm.

Appendix III

THE INTERNAL REVENUE SERVICE'S MISSION AND STRATEGIC GOALS AND OBJECTIVES[1]



[1] Excerpt from the Internal Revenue Service FY 2000 – 2005 Strategic Plan (page 21), dated January 2001.

Appendix IV

THE PRESIDENT'S MANAGEMENT AGENDA
IMPROVING GOVERNMENT PERFORMANCE

President George W. Bush's Administration is dedicated to ensuring that the resources entrusted to the Federal Government are well managed and wisely used. The President sent to the Congress a bold strategy for improving the management and performance of the Federal Government. That strategy reads, in part:

To reform Government, we must rethink Government.

The need for reform is urgent. The General Accounting Office's (GAO) "high-risk" list identifies areas throughout the Federal Government that are most vulnerable to fraud, waste, and abuse. Ten years ago, the GAO found eight such areas. Today it lists 22. Perhaps as significant, Government programs too often deliver inadequate service at excessive cost….

… while the Government needs to reform its operations -- how it goes about its business and how it treats the people it serves, it also needs to rethink its purpose -- how it defines what business is and what services it should provide.

The President's vision for Government reform is guided by three principles. Government should be:

- Citizen-centered, not bureaucracy-centered;
- Results-oriented;
- Market-based, actively promoting rather than stifling innovation through competition.

The President has called for a Government that is active but limited that focuses on priorities and does them well. That same spirit should be brought to the work of reform. Rather than pursue an array of management initiatives, we have elected to identify the Government's most glaring problems -- and solve them. *The President's Management Agenda* is a starting point for management reform.

- The Agenda contains five Government-wide … goals to improve Federal management and deliver results that matter to the American people.
- It reflects the Administration's commitment to achieve immediate, concrete, and measurable results in the near term.
- It focuses on remedies to problems generally agreed to be serious, and commits to implement them fully.

- The goals in this Agenda are being undertaken in advance of, not instead of, other needed management improvements.
- Additional goals will be undertaken, as tangible improvements are made in this initial set of initiatives…. [1]

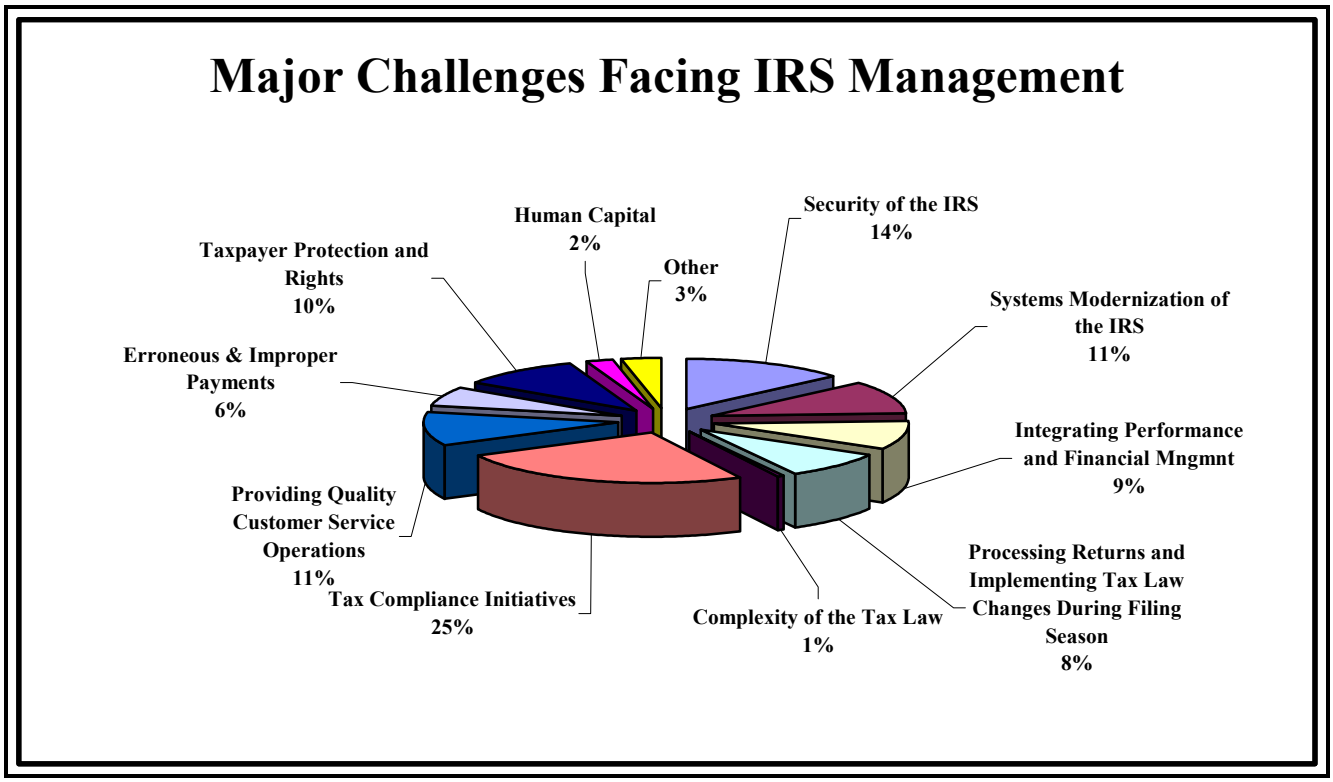
The five Government-wide goals included in *The President's Management Agenda for Improving Government Performance* are:

- Strategic Management of Human Capital.
- Competitive Sourcing.
- Improved Financial Performance.
- Expanded Electronic Government.
- Budget and Performance Integration.

[1] *The President's Management Agenda, Fiscal Year 2002;* http://www.whitehouse.gov/omb/budintegration/pma_index.html.

Appendix V

OFFICE OF AUDIT'S FISCAL YEAR 2004 STAFF DAY ALLOCATION BY MAJOR CHALLENGES FACING INTERNAL REVENUE SERVICE MANAGEMENT

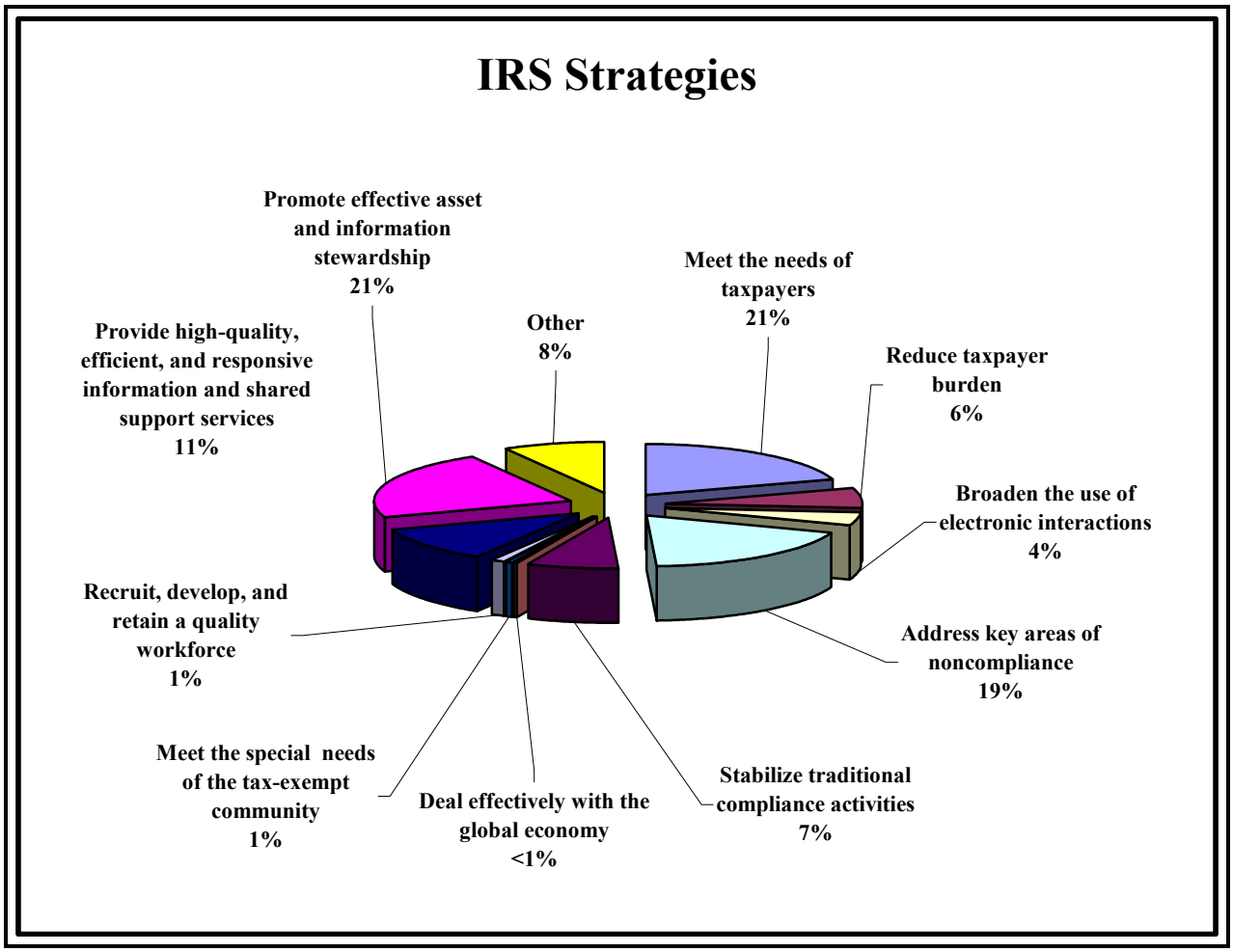


Note: Some audits relate to more than one major challenge area. In addition, Fiscal Year (FY) 2004 staff days are included for audits that were started in FY 2003 with planned completion dates in FY 2004.

Appendix VI

OFFICE OF AUDIT'S FISCAL YEAR 2004 STAFF DAY ALLOCATION BY

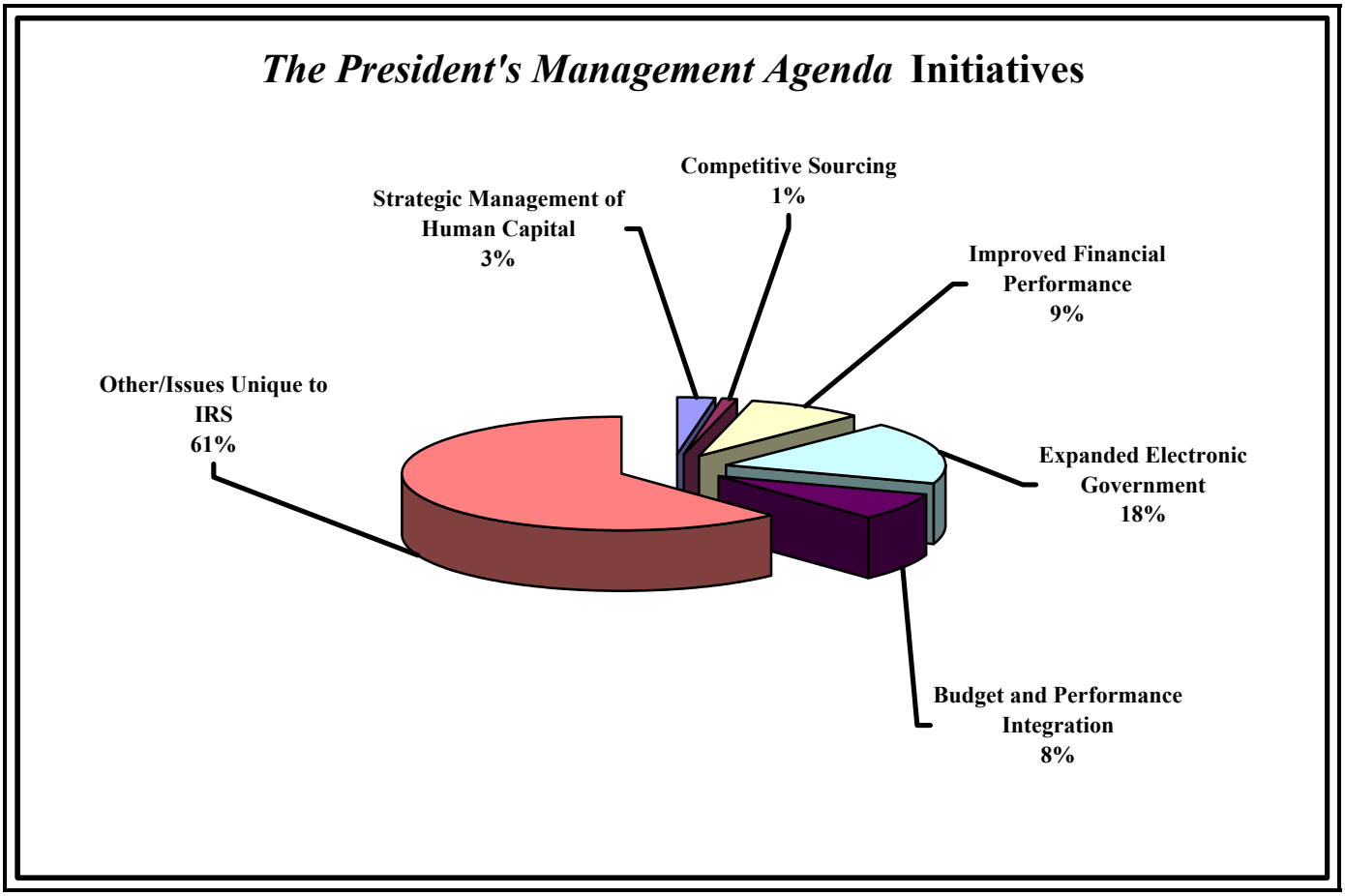
INTERNAL REVENUE SERVICE MAJOR STRATEGIES



Note: Some audits relate to more than one strategy area. In addition, Fiscal Year (FY) 2004 staff days are included for audits that were started in FY 2003 with planned completion dates in FY 2004.

Appendix VII

OFFICE OF AUDIT'S FISCAL YEAR 2004 STAFF DAY ALLOCATION BY THE PRESIDENT'S MANAGEMENT AGENDA INITIATIVES[1]



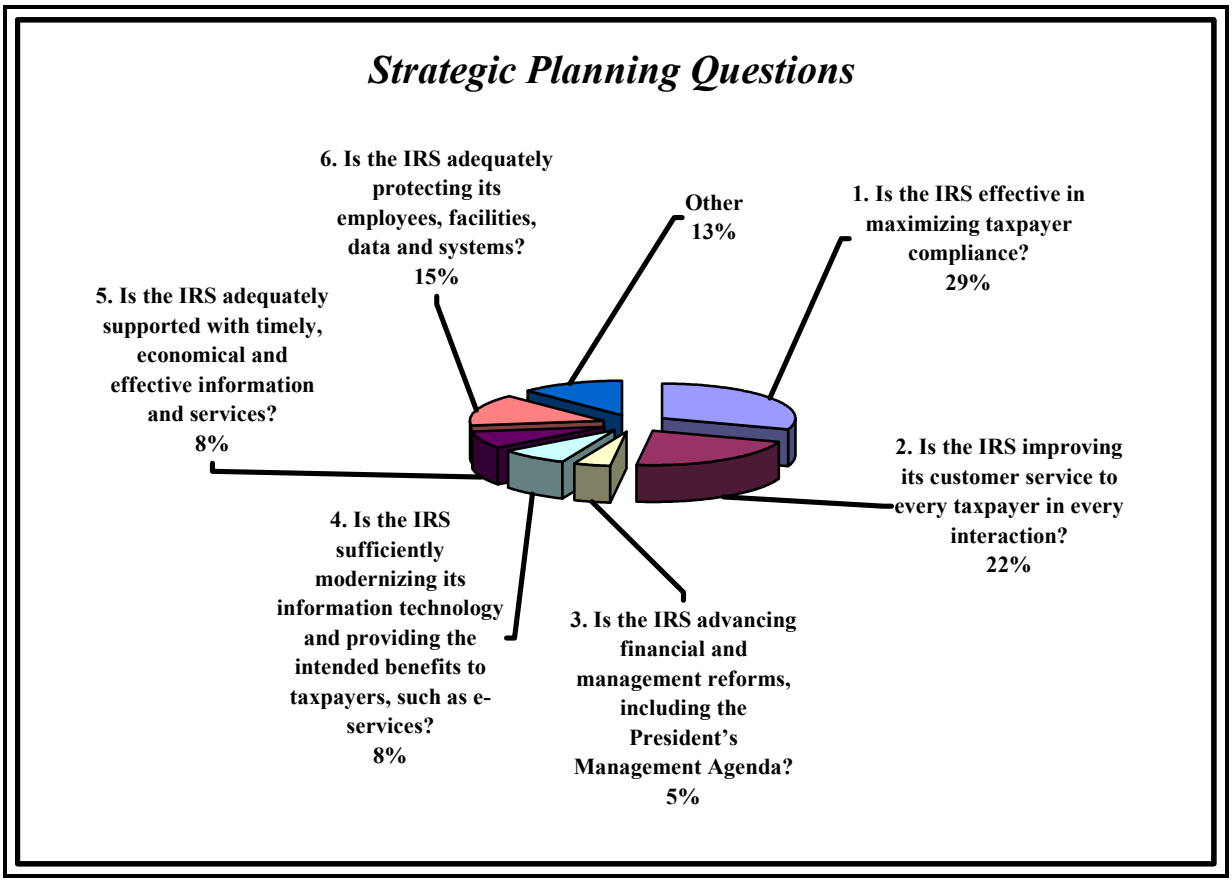
Note: Fiscal Year (FY) 2004 staff days are included for audits that were started in FY 2003 with planned completion dates in FY 2004.

[1] Fiscal Year 2004 audits have been categorized, as appropriate, under *The President's Management Agenda* initiatives. The audits that do not relate to *The President's Management Agenda* are categorized as "Other/Issues Unique to IRS."

Appendix VIII

OFFICE OF AUDIT'S FISCAL YEAR 2004 STAFF DAY ALLOCATION BY

STRATEGIC PLANNING QUESTIONS

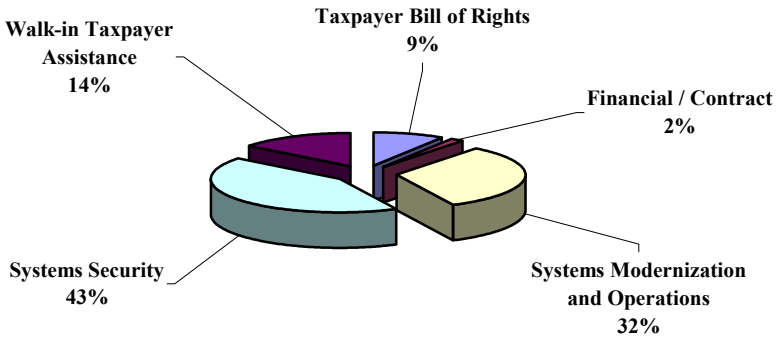


Note: Fiscal Year (FY) 2004 staff days are included for audits that were started in FY 2003 with planned completion dates in FY 2004.

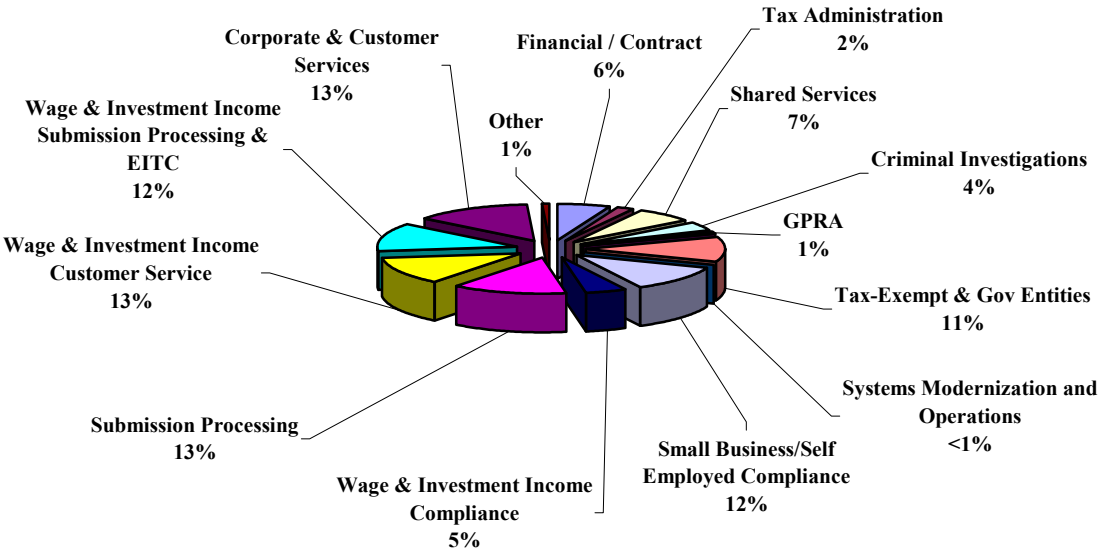
Appendix IX

OFFICE OF AUDIT'S FISCAL YEAR 2004 STAFF DAY ALLOCATION BY STATUTORY AND DISCRETIONARY AUDITS

Statutory Coverage (31%)



Discretionary Audits (69%)



Note: Fiscal Year (FY) 2004 staff days are included for audits that were started in FY 2003 with planned completion dates in FY 2004.

Appendix X

LIST OF PLANNED AUDITS FOR FY 2004 INFORMATION SYSTEMS PROGRAMS

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

Telecommunications Disaster Recovery

Audit Objective: Determine whether the IRS has developed an adequate disaster recovery plan, including:

- A complete business cost analysis.
- A scheduled implementation plan that meets the needs of the business units.
- An adequate test plan.

Mainframe Triplex Disaster Recovery

Audit Objective: Determine whether the IRS has developed an adequate disaster recovery plan, including:

- A complete business cost analysis.
- A scheduled implementation plan that meets the needs of the business units.
- An adequate test plan.

Storage Management Activities

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

Telecommunications Asset Tool

Audit Objective: Determine whether the new system is effective in controlling telecommunications costs.

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

Modernization, Information Technology and Security Services Re-organization

Audit Objective: Determine whether:

- The Modernization, Information Technology and Security Services (MITS) re-organization has met its goals.
- An effective risk management strategy has been implemented to identify and manage problems arising from the re-organization.

Management of Contracting Services

Audit Objective: Determine whether the Information Technology Services (ITS) management is effectively managing its contractor services.

Procurement of Information Technology Services Outside of Modernization, Information Technology and Security Services

Audit Objective: Assess the management controls over procurement of information technology services outside of the MITS organization, in particular through the Treasury Information Processing Support Services contract.

Business Systems Development

Audit Objective: Assess the adequacy and completeness of the Business Systems Development organization's development, maintenance, and testing policies and procedures.

Integrated Financial System Development

Audit Objective: Assess the:

- Project management/schedule and cost realism.
- Testing procedures.
- Plans for transition to support.
- Deployment activities.

Custodial Accounting Project Development

Audit Objective: Assess the:

- Project management/schedule and cost realism.
- Testing procedures.
- Plans for transition to support.
- Deployment activities.

Contract Management Process (Follow-up)

Audit Objective: Determine whether:

- Adequate processes and procedures have been defined for the Business Systems Modernization Office (BSMO) and PRIME[2] project teams.
- BSMO and PRIME project teams have implemented defined processes.
- Processes are becoming institutionalized in the project teams.

Annual Business Systems Modernization Assessment

Audit Objective: Assess the progress of the BSMO and the PRIME contractor to modernize the IRS' information technology.

Earned Income Tax Credit System Development

Audit Objective: Assess the:

- Project management/schedule and cost realism.
- Testing procedures.
- Plans for transition to support.
- Deployment activities.

Modernized E-File (Business Master File Forms 990 and 1120) Development

Audit Objective: Assess the:

- Project management/schedule and cost realism.
- Testing procedures.
- Plans for transition to support.
- Deployment activities.

Customer Account Data Engine Development

Audit Objective: Assess the:

- Project management/schedule and cost realism.
- Testing procedures.
- Plans for transition to support.
- Deployment activities.

[2] The PRIME Alliance is a group of leading companies brought together by Computer Sciences Corporation to provide the IRS with access to commercial best practices, guarantee access to viable alternative solutions, and streamline the acquisition process.

E-Services Development

Audit Objective: Assess the:

- Project management/schedule and cost realism.
- Testing procedures.
- Plans for transition to support.
- Deployment activities.

Requirements Management

Audit Objective: Determine whether:

- Adequate processes and procedures have been defined for the BSMO and PRIME project teams.
- BSMO and PRIME project teams have implemented defined processes.
- Processes are becoming institutionalized in project teams.

Transition Management (Follow-up)

Audit Objective: Determine whether:

- Adequate processes and procedures have been defined for the BSMO and PRIME project teams.
- BSMO and PRIME project teams have implemented defined processes.
- Processes are becoming institutionalized in project teams.

Business Systems Modernization Testing Processes (Follow-up)

Audit Objective: Determine whether:

- Adequate processes and procedures have been defined for the BSMO and PRIME project teams.
- BSMO and PRIME project teams have implemented defined processes.
- Processes are becoming institutionalized in project teams.

Release Management / Integrated Program Scheduling Process

Audit Objective: Determine whether:

- Adequate processes and procedures have been defined for the BSMO and PRIME project teams.
- BSMO and PRIME project teams have implemented defined processes.
- Processes are becoming institutionalized in project teams.

Access to Applications

Audit Objective: Determine whether the IRS has adequately restricted access to applications.

Access to Components Inside the Network

Audit Objective: Determine whether the IRS adequately restricts access to components inside the network.

Configuration and Update of Software

Audit Objective: Determine whether the IRS adequately configures and updates software when vulnerabilities are identified.

Delineation of Roles and Responsibilities

Audit Objective: Determine whether the IRS has adequately delineated key security roles and responsibilities.

Segregation of Systems Administration from Security Administration

Audit Objective: Determine whether the IRS has adequately segregated roles and responsibilities for systems administration from security administration.

Contingency Plans for Restoring Critical Systems

Audit Objective: Determine whether the IRS has adequate contingency plans to restore critical systems in an emergency.

Monitoring Computer Activity

Audit Objective: Determine whether the IRS adequately monitors computer activity.

Training of Key Personnel

Audit Objective: Determine whether the IRS has trained key security personnel.

Certification of Sensitive Systems

Audit Objective: Determine whether the IRS has certified at least 75 percent of its sensitive systems.

Custodial Accounting Project / Planning, Analysis and Decision Support Release I

Audit Objective: Determine whether the IRS is developing adequate managerial, operational, and technical controls for new applications.

Customer Account Data Engine Release I

Audit Objective: Determine whether the IRS is developing adequate managerial, operational, and technical controls for new applications.

E-Services Release I

Audit Objective: Determine whether the IRS is developing adequate managerial, operational, and technical controls for new applications.

Personal Digital Assistants

Audit Objective: Determine whether Personal Digital Assistants have been certified and are being used in a secure manner.

Secure Messaging

Audit Objective: Determine whether the IRS has taken adequate steps to prevent unauthorized disclosure using e-mail.

Penetration Test (Follow-up)

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

Web Servers

Audit Objective: Determine whether the IRS implemented adequate management, operational, and technical controls at web servers to prevent unauthorized access.

Applications Reviews (Multiple Audits)[3]

Audit Objective: Determine whether the IRS implemented adequate management, operational, and technical controls for certain applications.

[3] The number of audits and the specific applications to be reviewed will be based on the resources needed to validate material weakness actions.

Federal Information Security Management Act

Audit Objective: Assess the adequacy of IRS security and provide an overall assessment to external agencies.

Appendix XI

LIST OF PLANNED AUDITS FOR FY 2004 HEADQUARTERS OPERATIONS AND EXEMPT ORGANIZATIONS PROGRAMS

Two of the planned audits for the Headquarters Operations and Exempt Organizations Programs Unit address statutory requirements related to the Internal Revenue Service's (IRS) financial statements and other financial reports.

Federal Financial Management Improvement Act of 1996 [1] ***Remediation Plan (Statutory Review)***

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

Custodial Accounting Project Financial Management Requirements

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

Competitive Sourcing – Various Information and Shared Services Activities

Audit Objective: Determine the accuracy and completeness of financial information and the description of the Most Efficient Organization.

Reimbursable Work Authorizations

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

Defense Contract Audit Agency Contract Oversight (Statutory Review)

Audit Objective: Review and issue to the IRS audit reports prepared by the Defense Contract Audit Agency on IRS contracts.

[1] Federal Financial Management Improvement Act of 1996, Pub. L. No. 104-208, 110 Stat. 3009.

Assistance to Contract Fraud Investigations

Audit Objective: Assist the Office of Investigations in evaluating financial and operating information relating to allegations of criminal or civil misconduct in procurement activities.

Vendor Invoice Audits -- Various Vendors

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

Civil Actions Taken as a Result of Criminal Investigations

Audit Objective: Determine if the Criminal Investigation (CI) function timely refers and the IRS properly takes civil actions on taxpayers associated with CI case activity.

Criminal Investigation Workload Management

Audit Objective: Evaluate the effectiveness of controls and procedures used to identify and manage CI's inventory and resources.

Trends in Criminal Investigation Activities Fiscal Years 1999 -- 2003

Audit Objective: Provide trend information and analysis of CI statistical information and performance.

Proper Use of Tax Returns and Information

Audit Objective: Determine whether CI effectively controls the use of tax return and return information.

Sensitive Equipment and Specialized Investigative Techniques

Audit Objective: Determine if controls and procedures are effective to ensure adherence to legal and procedural requirements, and protection of taxpayer rights.

Criminal Investigation Non-Filer Program

Audit Objective: Evaluate the effectiveness of CI's non-filer program, including interaction with other Compliance functions.

Oversight for the Processing of Employee Plans Returns

Audit Objective: Determine the effectiveness of the Tax Exempt and Government Entities (TE/GE) Division's oversight for the processing of Form 5500 returns and the adequacy of planning efforts for the next Department of Labor contract.

Streamlined Employee Plans Determination Process

Audit Objective: Determine the effectiveness and consistency of the Employee Plans' Determination screening process for merit closings.

Pension Plan Underfunding Waivers

Audit Objective: Determine the effectiveness of the TE/GE Division's efforts to ensure that defined benefit pension plans meet Federal annual funding requirements.

Exempt Organizations Independent Review Process

Audit Objective: Evaluate the TE/GE Division's Independent Review Process and the process followed in making the decision to restore tax-exempt status to two foundations.

Section 527 Political Organizations Disclosure Requirements

Audit Objective: Determine if the IRS timely and effectively complied with the new public disclosure requirements for Section 527 political organizations as required by Public Law 107-276 (2002).

Exempt Organizations' Market Segmentation Approach to Its Examination and Outreach Programs

Audit Objective: Evaluate the Exempt Organizations (EO) function's efforts to effectively implement a market segmentation approach to assess noncompliance, identify education and outreach needs, and determine the best use of resources.

Form 990 E-File (Post-Deployment)

Audit Objective: Determine if the Form 990 E-File Project Team has developed an adequate plan for evaluating the projected benefits resulting from electronically filed Forms 990.

Tax Exempt and Government Entities Division's Efforts to Ensure Tax Exempt Bonds Proceeds Are Used as Intended

Audit Objective: Evaluate the Office of Tax Exempt Bonds' process for ensuring the proceeds from tax-exempt bonds are used for their intended purpose.

Tax Exempt Bonds Voluntary Closing Agreement Program

Audit Objective: Determine if the Office of Tax Exempt Bonds has established effective processes that will increase participation in the Voluntary Closing Agreement Programs, ensure bond issuers are provided with appropriate guidance, and ensure that cases will be processed in a timely and consistent manner.

Compliance Checks in Indian Tribal Governments

Audit Objective: Evaluate the Office of Indian Tribal Government's use of compliance checks results to determine if pre-filing and post-filing activities are focused in an effective manner to improve voluntary compliance.

Tax Exempt and Government Entities Initiatives to Identify Federal, State, and Local Government Entities

Audit Objective: Assess the TE/GE Division's efforts to accurately identify Federal, State, and Local government customers.

Effectiveness of Compliance Checks in Improving Government Entities' Compliance

Audit Objective: Assess the effectiveness of the TE/GE Division's use of compliance checks for improving government entities' compliance with the tax laws.

Processing Tax Exempt and Government Entities Reject Registers

Audit Objective: Determine if the TE/GE Division is providing sufficient oversight of the Ogden Campus Reject Registers to determine if problems are effectively resolved, errors are reduced, and the burden on customers is minimized.

Tax Exempt and Government Entities Efforts to Address Abusive Tax Schemes

Audit Objective: Assess TE/GE management's efforts to identify and control potential abusive tax schemes and their related cases, and coordinate with CI and other IRS Divisions, as appropriate.

Internal Revenue Service Oversight Board

Audit Objective: Determine whether the IRS Oversight Board's procedures and practices are consistent with the requirements and intent of the IRS Restructuring and Reform Act of 1998[2] as well as the standards and practices for effective organizational governance.

Government Performance and Results Act of 1993 [3]

Audit Objective: Determine whether the IRS' performance measures adequately reflect the desired outcomes of the agency's programs and operations, and assess whether data used to quantify outcomes/measures is accurate.

Case Advocacy Processing

Audit Objective: Evaluate whether the processes and procedures of case advocacy promote timely resolution of cases.

Appeals Processing of Offers in Compromise and Collection Due Process Cases

Audit Objective: Determine whether Offers in Compromise and Collection Due Process cases in Appeals are efficiently controlled and timely processed.

Centralized Authorization File

Audit Objective: Determine whether the processes and procedures established for the Centralized Authorization File protect against disclosure of taxpayer information.

Flexiplace

Audit Objective: Determine whether the IRS has appropriately managed its flexiplace program to enhance productivity, promote cost savings, and ensure compliance with federal laws regarding flexiplace/teleworking.

Employee Tax Compliance Program

Audit Objective: Determine if the Employee Tax Compliance Program results in timely and consistent actions to ensure compliance with tax laws.

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

[3] Government Performance and Results Act of 1993, 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.).

Service Center Acquisition

Audit Objective: Evaluate the IRS plans to replace or repair existing Service Centers.

Personnel Support Services and Facilities

Audit Objective: Determine whether the costs paid by the IRS for personnel support services and facilities are commensurate with the benefits received.

Competitive Sourcing

Audit Objective: Evaluate the effectiveness of IRS' competitive sourcing activities.

Human Resources Investment Fund

Audit Objective: Determine whether employees who receive funds from the Human Resources Investment Fund were appropriately selected and successfully completed the relevant courses, and whether the training was provided by accredited institutions.

Training Effectiveness

Audit Objective: Assess the IRS processes used to evaluate the effectiveness of training.

Appendix XII

LIST OF PLANNED AUDITS FOR FY 2004 WAGE AND INVESTMENT INCOME PROGRAMS

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

Accuracy and Reliability of the Digital Daily

Audit Objective: Determine whether the IRS has an effective process to ensure it is providing consistent and reliable information to taxpayers through its web site (*Digital Daily*).

Accuracy of Tax Law Specifications in Tax Software

Audit Objective: Determine whether the IRS has an adequate process to ensure that tax software companies are provided with accurate tax law specifications.

Effective Use of Kiosks

Audit Objective: Determine whether kiosks are used to provide effective customer service for taxpayers.

Effectiveness of E-Service Calendar Year 2003 and 2004 Releases

Audit Objective: Determine whether the new e-services initiatives have been implemented and are functioning as intended for individual taxpayers.

Injured Spouse Relief

Audit Objective: Determine whether qualified taxpayers are receiving injured spouse relief.

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[1] Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[2] Treasury and General Government Appropriations Act, 2002 H.R. 2590.

Innocent Spouse Claim Determinations

Audit Objective: Determine whether taxpayers who meet minimum requirements are receiving accurate and timely innocent spouse claim determinations.

Locating Internal Revenue Service Taxpayer Services

Audit Objective: Determine whether taxpayers can easily locate Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance sites, and alternate customer service sites when they want face-to-face tax assistance.

Maximizing the Internal Revenue Service's Public Internet Site

Audit Objective: Determine whether the IRS is maximizing its use of the Internet to provide customer service to taxpayers.

Processing Tax Returns Attachments

Audit Objective: Determine whether documents that taxpayers attach to tax returns are appropriately routed after the tax returns are processed.

Protecting Taxpayer Data at Volunteer Tax Preparation Sites (Follow-up)

Audit Objective: Determine whether the IRS ensures taxpayer data are removed from computers used by volunteers to prepare tax returns.

Refund Adjustment Notices

Audit Objective: Determine whether taxpayers are receiving timely and effective notification of refund adjustments.

Stakeholder Partnership, Education, and Communications Effect on Voluntary Compliance

Audit Objective: Determine whether Stakeholder Partnership, Education, and Communications can measure its effect on taxpayer compliance.

Tax Return Preparation of Low-Income Taxpayers' Returns

Audit Objective: Determine whether low-income taxpayers' tax returns are being accurately prepared.

Taxpayer Assistance Centers -- November/December 2003 (Statutory Review)

Audit Objective: Determine whether taxpayers receive correct answers to their questions when they visit the TACs, including mobile and alternative sites.

Taxpayer Assistance Centers -- Semi-Annual (July - December 2003) (Statutory Review)

Audit Objective: Determine whether taxpayers received correct answers to their questions when they visit TACs from July to December 2003.

Taxpayer Assistance Centers Program, Measures, and Goals

Audit Objective: Determine whether the purpose of the Wage and Investment Division's (W&I) Field Assistance, its strategies and plans, and management policies are effectively designed to ensure that the Program meets the IRS' goal of providing the right services at the right time in the right locations.

Taxpayer Assistance Centers Quality for the 2004 Filing Season

Audit Objective: Determine whether taxpayers receive correct answers to their questions when they visit the TACs, including mobile and alternative sites.

Toll-Free Accounts Quality for the 2004 Filing Season

Audit Objective: Determine whether taxpayers are receiving quality service from the IRS' toll-free telephone assistors for tax account issues.

Toll-Free Program Measures and Goals

Audit Objective: Determine whether the IRS' measurement for the quality of the toll-free telephone service communicates the progress towards meeting strategic objectives and goals in compliance with Government Performance and Results Act of 1993[3] requirements.

Toll-Free Tax Law Quality for the 2004 Filing Season

Audit Objective: Determine whether taxpayers are receiving quality service from the IRS' toll-free telephone assistors for tax law questions.

[3] Government Performance and Results Act of 1993, 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.).

Security and Safety Plan for the Wage and Investment Division

Audit Objective: Determine whether the W&I Division's Operating Unit has an effective strategy to protect its administrative and field offices in the event of an emergency.

Filing Season Preparation – Accuracy of Forms, Instructions, and Publications for New Tax Laws

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

Filing Season Preparation Computer Programming Requests for New Tax Laws

Audit Objective: Determine whether the IRS timely and accurately initiated computer-programming requests for new tax legislation to ensure effective 2004 processing of individual tax returns.

2004 Filing Season Individual Return Processing

Audit Objective: Determine whether the IRS timely and accurately processes 2003 individual paper and electronic tax returns during the 2004 Filing Season.

Processing of Combat Zone Returns

Audit Objective: Determine whether the IRS accurately processes returns marked 'Combat Zone' and properly allows the authorized filing extension.

Health Coverage Tax Credit Program

Audit Objective: Determine whether the IRS has established adequate procedures and managerial controls to effectively administer the Health Coverage Tax Credit Program.

Reliability of the Customer Account Data Engine

Audit Objective: Determine whether the IRS' Customer Account Data Engine System ensures that individual Form 1040EZ tax returns are timely and accurately posted and refunds properly issued.

Strategy on the Internal Revenue Service's Implementation of the Earned Income Tax Credit Concept of Operations (Multiple Audits)[4]

Audit Objective: Determine whether the implementation of the recommendations of the Treasury and IRS Earned Income Tax Credit (EITC) Task Force, including the systems, processes, and measures, are being efficiently and effectively implemented to provide the intended goal of increasing participation and decreasing erroneous payments.

Validation of Advanced Earned Income Credit on Electronically Filed Returns

Audit Objective: Determine whether the IRS is effectively validating Advanced Earned Income Credit payments shown on electronically filed individual tax returns.

Remittance Processing (Follow-up)

Audit Objective: Determine whether the IRS has corrected its measurement of remittance accuracy at Submission Processing Campuses.

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

Audit Objective: Determine whether the IRS is complying with the provisions of the Taxpayer Bill of Rights 2[5]and 26 United States Code (U.S.C.) § 6103(e)(8).

Enforcement Statistics (Statutory Review)

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

Extensions of the Assessment Statute Extensions (Statutory Review)

Audit Objective: Determine whether the IRS is complying with legal and internal guidelines when requesting and processing assessment statute extensions.

Restrictions on Directly Contacting Taxpayers (Statutory Review)

Audit Objective: Determine whether the IRS is in compliance with 26 U.S.C. § 7521(b)(2) and (c) regarding directly contacting taxpayers.

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[4] A series of on-line audits will be conducted on the IRS' progress with its EITC Concept of Operations.
[5] Pub. L. No. 104-168, 110 Stat. 1452 (1996) (codified as amended in scattered sections of 26 U.S.C.).

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

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

Fiscal Year 2004 Taxpayer Complaints (Statutory Review)

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

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

Audit Objective: Determine whether the IRS improperly withheld information requested by taxpayers based on Freedom of Information Act[6] provisions and I.R.C. § 6103 or by replying that responsive records did not exist.

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

Audit Objective: Obtain information on IRS administrative and civil actions resulting from violations of the Fair Debt Collections Practices Act.[7]

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

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

Wage and Investment Division Balance Due Program Planning and Measures

Audit Objective: Determine whether the purpose of the Balance Due Program, its strategies and plans, and management policies are effectively designed to ensure the Program meets the IRS' goal of improving voluntary compliance.

Report Generation System

Audit Objective: Determine whether the Report Generation System and the Correspondence Examination Support System provide the anticipated program benefits.

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[6] Freedom of Information Act (FOIA), 5 U.S.C. § 552 (1994 & Supp. IV 1998).
[7] Fair Debt Collection Practices Act, 15 U.S.C. §§ 1601 note, & 1692-1692o (1994 & Supp. IV 1998).

Wage and Investment Division Automated Underreporter Program Management, Oversight, and Accountability

Audit Objective: Determine whether the Automated Underreporter Program is managed to help ensure it meets the intended goals, including financial oversight, evaluation of program improvements, performance data collection, and program manager accountability.

Wage and Investment Division Correspondence Examination Program Management, Oversight, and Accountability

Audit Objective: Determine whether the Non-EITC Examination Program is managed to help ensure it meets the intended goals, including financial oversight, evaluation of program improvements, performance data collection, and program manager accountability.

Questionable W-4 Program (Follow-up)

Audit Objective: Determine whether the IRS' efforts in the Questionable W-4 Program have successfully improved non-compliance with filing requirements.

Appendix XIII

LIST OF PLANNED AUDITS FOR FY 2004
SMALL BUSINESS AND CORPORATE PROGRAMS

Three of the planned audits for the Small Business and Corporate Programs Unit are in response to the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)[1] *statutory reporting requirements.*

Classification of Corporate Returns

Audit Objective: Evaluate the controls over the classification of corporate tax returns and determine whether selected issues are examined.

Selected Examination Issues

Audit Objective: Determine whether certain Examination issues are properly considered for examination and whether issues are properly examined.

Analysis of Queue/Shelved Cases

Audit Objective: Evaluate the types of cases residing in the Queue and Shelved statuses.

Trust Fund Taxpayer Delinquent Account Collection Actions

Audit Objective: Determine whether revenue officers are taking satisfactory collection actions to collect delinquent trust fund tax accounts and prevent further accumulation of taxes owed.

Compliance Trends

Audit Objective: Provide statistical information and trend analyses of that information based on our agreement with the IRS Oversight Board.

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

Use of Examination Specialists

Audit Objective: Determine whether Small Business/Self-Employed (SB/SE) Division revenue agents appropriately use the services of specialists to help determine the correct amount of taxes owed.

Contracting Out Collection Activities

Audit Objective: Determine whether sufficient controls exist for assigning and controlling cases that will be sent to Collection Contract Support agencies.

Examination of High-Income Taxpayers

Audit Objective: Evaluate the IRS' strategy for examining high-income taxpayers.

Audit Reconsiderations

Audit Objective: Identify causes for audit reconsiderations and determine whether the SB/SE Division properly resolves the cases.

Collection Risk-Based Approach

Audit Objective: Determine whether the Collection risk-based approach is an effective method for identifying casework for the Collection function.

Collection Field Function Offers in Compromise

Audit Objective: Determine if the IRS area offices are meeting the Offer in Compromise Program objectives by properly and timely resolving offer determinations.

Field Examination Redesign

Audit Objective: Determine whether the Field Exam Redesign Pilot Project is meeting the goals established for it, including the implementation, oversight, and measurement processes used during the pilot.

Effectiveness of Collection Field Function Case Assignment Practices

Audit Objective: Determine whether the SB/SE Division is meeting the goals established by the reengineering team as justification for changing the inventory identification criteria.

Seizures (Statutory Review)

Audit Objective: Determine whether the IRS complied with seizure legal requirements in Internal Revenue Code (I.R.C.) Sections (§) 6330 and 6344, and with the IRS' own procedures.

Collection Field Function Consultation Initiative

Audit Objective: Determine whether the SB/SE Division was effective in meeting its goals during the Collection Consultation Initiative.

Levies (Statutory Review)

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

E-Commerce Compliance

Audit Objective: Evaluate the IRS' strategy for dealing with tax compliance issues of those businesses who conduct transactions on the Internet.

Lead Development Centers

Audit Objective: Determine whether the Lead Development Centers are identifying promoters of abusive tax schemes and taking appropriate actions to refer cases.

Liens (Statutory Review)

Audit Objective: Determine if IRS issuances of Federal Tax Liens complied with requirements in I.R.C. § 6320.

Evaluation of the Potential Uses for Business Information Returns

Audit Objective: Determine how the IRS could effectively use the financial information it receives via information returns for business taxpayers.

Unprocessable Forms 1120S

Audit Objective: Determine whether the IRS has taken the necessary actions to ensure that proper tax determinations are being made for shareholders of unprocessable Forms 1120S.

Individual Taxpayers Claiming the Low Income Housing General Business Credit

Audit Objective: Determine whether individual taxpayers taking the Low Income Housing General Business Credit have valid claims for this credit.

Accuracy of Manually Assessed Penalties on Business Accounts

Audit Objective: Determine if manually assessed penalties are being accurately computed on business taxpayer accounts.

Use of Form 4137 to Collect Federal Insurance Contribution Act Tax on Tips and Wages

Audit Objective: Determine whether taxpayers are properly using Form 4137 to report Federal Insurance Contribution Act taxes, and whether the IRS is properly using information from this form.

Omission of Forms 940/941 from the National Research Program

Audit Objective: Determine the potential effect of the National Research Program's decision to omit employment tax returns from its compliance audits.

Notice Review Issues (Follow-up)

Audit Objective: Determine whether the IRS has taken effective actions to alleviate the conditions cited in our previous report.

Security in the Internal Revenue Service's Business Processing Centers

Audit Objective: Determine whether the IRS has taken adequate steps to protect its employees, resources, and taxpayer data at the Business Processing Centers.

Business Taxpayer Satisfaction with Returns Processing Activities

Audit Objective: Determine whether taxpayers who recently filed returns in business processing centers were satisfied with the service they received from the IRS.

Completeness of Electronically Filed Suspicious Activity Reports and Currency Transaction Reports on Financial Crimes Enforcement Network's Currency and Banking Reporting System Database

Audit Objective: Identify whether electronically and magnetically filed Currency and Banking Reporting System forms contain all required information to make them useful for law enforcement activities.

Quality of Large and Mid-Size Business Division Service Center Representatives

Audit Objective: Determine whether Large and Mid-Size Business (LMSB) Division Service Center Representatives have the ability, expertise, and training to address problems with complex LMSB customer accounts.

Effectiveness of Modernized E-File (Form 1120)

Audit Objective: Determine if the systems designed for e-filing corporate returns are delivering the expected business benefits.

Advanced Earned Income Credits on Forms 941

Audit Objective: Identify employers that claim an amount for the advanced earned income credit on their Forms 941 that substantially eliminates the amount of employment taxes owed; determine whether the claims are legitimate by comparing them to the amounts they reported on the W-2 file; and, if payments are legitimate, determine whether the advanced earned income credit payments caused employees to file balance-due returns.

Timing of Assessments of Failure to Pay Penalties

Audit Objective: Determine whether the timing of the IRS' assessment of the failure to pay penalty creates inequities among taxpayers.

Tentative Carrybacks

Audit Objective: Determine if tentative carryback refunds are timely issued to satisfy taxpayer rights and avoid the payment of interest by the IRS.

Aid Provided by Internal Revenue Service to Start-Up Businesses

Audit Objective: Determine whether the Taxpayer Education and Communication function is providing sufficient assistance to start-up businesses so they can meet their tax obligations.

Processing Corporate Tax Returns for Controlled Groups

Audit Objective: Determine whether the IRS is properly processing corporate tax returns filed by members of controlled groups, and whether these taxpayers understand their filing requirements.

Review of the Combined Annual Wage Reporting Program

Audit Objective: Determine whether the IRS is effectively working the IRS' Combined Annual Wage Reporting cases and whether the return on investment from these cases warrants expansion of the program.

Internal Revenue Service's Implementation of Tax Law Changes Affecting Business Submission Processing

Audit Objective: Determine whether the IRS has taken actions to effectively implement tax law changes affecting the filing and processing of business tax returns.

Revenue Agent Performance Management

Audit Objective: Determine whether the LMSB processes for ensuring results are linked to the performance management system.

Customer Service Filing Season

Audit Objective: Evaluate the access taxpayers receive during the 2004 Filing Season.

Evaluation of Limitation on the Failure-to-File Penalty

Audit Objective: Evaluate whether there is Congressional intention to limit the failure-to-file penalty to 22.5 percent.

Analysis of Allowing Self-Employment Tax Deduction on Late/No File Returns

Audit Objective: Determine whether there are methods and techniques to improve the compliance for self-employed taxpayers.

Analysis of Decline in Automated Collection System Collections

Audit Objective: Analyze the reasons for the decline in Automated Collection System collection yields and whether re-engineering efforts are having any discernable effect.

Progress of Non-Filer Strategy

Audit Objective: Evaluate the progress of the Non-Filer Strategy to determine whether planned results have been achieved.

Tax Shelter Resolutions

Audit Objective: Evaluate whether the LMSB Division actions to resolve tax shelter issues are effective in achieving compliance goals.

The Effectiveness of Promoter Examinations on Tax Compliance

Audit Objective: Determine whether promoter examinations are achieving the intended goals.

Implementation of Limited Issue Focused Examinations

Audit Objective: Determine whether the LMSB has an effective method to ensure that the goals and objectives of the concept are being met.

The Effectiveness of the Automated Substitute for Return Program for Small Business/Self-Employed Taxpayers

Audit Objective: Evaluate whether the Automated Substitute for Return Program is effective in achieving filing and payment compliance for SB/SE taxpayers.

The Effectiveness of the Automated 6020 (b) Program

Audit Objective: Determine whether the Automated 6020(b) Program is effective in achieving filing and payment compliance for business taxpayers.

Contracting Out Toll-Free Pilot

Audit Objective: Evaluate whether the pilot for contracting out Customer Service calls provides reliable information for decision-making purposes.

The Effect of Identity Fraud on Taxpayers

Audit Objective: Determine whether the individual taxpayer identification number application process and related tax administration processes deter, detect, and correct identity fraud.

The Use of Foreign-Sourced Income Documents

Audit Objective: Evaluate whether the IRS has processes to use foreign-sourced information documents to increase compliance and take advantage of Tax Information Exchange Agreements.

The Effect of Employment Tax Issues on Tax Administration

Audit Objective: Evaluate the Employment Tax Program to determine whether it is effective in achieving compliance.

Corporate Extensions of Time to File

Audit Objective: Evaluate the effect that laws, regulations, and IRS operating procedures have on timely corporate payment compliance.

Tax Compliance of Non-Wage Earners

Audit Objective: Determine whether the IRS has effective and efficient methods to ensure the tax compliance of non-wage earners.

Review of Transfer Pricing Documentation

Audit Objective: Determine the impact, if any, of the contemporaneous transfer pricing documentation on transfer pricing examination results.

Effectiveness of Large and Mid-Size Business Division Research Efforts

Audit Objective: Assess the progress the LMSB Division is making in:

- Addressing the concerns raised in past studies of the IRS' research operations.
- Integrating its research operation into key business decision-making processes.
- Using research for improving performance on strategic initiatives.
- Aligning its research processes with best practices adopted by other research programs.

Appendix XIV

LIST OF PLANNED AUDITS FOR FISCAL YEAR 2004 BY MANAGEMENT CHALLENGE, INTERNAL REVENUE SERVICE STRATEGY, PRESIDENTIAL INITIATIVE, AND STRATEGIC PLANNING QUESTIONS

PLANNED AUDIT	MANAGEMENT CHALLENGE	IRS STRATEGY	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	Explanations for the Codes Used Below Are Listed in Appendix XV.			
INFORMATION SYSTEMS PROGRAMS				
Telecommunications Disaster Recovery	c01	s09	EG	i06
Mainframe Triplex Disaster Recovery	c01	s09	EG	i06
Storage Management Activities	c02	s09	EG	i05
Telecommunications Asset Tool	c02	s09	EG	i05
Modernization, Information Technology and Security Services Re-organization	c10	s09	HC	i05
Management of Contracting Services	c02	s09	EG	i05
Procurement of Information Technology Services Outside of Modernization, Information Technology and Security Services	c02	s09	EG	i05
Business Systems Development	c02	s09	EG	i05
Integrated Financial System Development	c02	s09	EG	i04
Custodial Accounting Project Development	c02	s09	EG	i04
Contract Management Process (Follow-up)	c02	s09	EG	i04
Annual Business Systems Modernization Assessment	c02	s09	EG	i04
Earned Income Tax Credit System Development	c02	s09	EG	i04
Modernized E-File (Business Master File Forms 990 and 1120) Development	c02	s09	EG	i04
Customer Account Data Engine Development	c02	s09	EG	i04
E-Services Development	c02	s09	EG	i04
Requirements Management	c02	s09	EG	i04
Transition Management (Follow-up)	c02	s09	EG	i04
Business Systems Modernization Testing Processes (Follow-up)	c02	s09	EG	i04
Release Management / Integrated Program Scheduling Process	c02	s09	EG	i04

PLANNED AUDIT	MANAGEMENT CHALLENGE	IRS STRATEGY	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	Explanations for the Codes Used Below Are Listed in Appendix XV.			
Access to Applications	c01	s10	NE	i06
Access to Components Inside the Network	c01	s10	NE	i06
Configuration and Update of Software	c01	s10	NE	i06
Delineation of Roles and Responsibilities	c01	s10	NE	i06
Segregation of Systems Administration from Security Administration	c01	s10	NE	i06
Contingency Plans for Restoring Critical Systems	c01	s10	NE	i06
Monitoring Computer Activity	c01	s10	NE	i06
Training of Key Personnel	c01	s10	NE	i06
Certification of Sensitive Systems	c01	s10	NE	i06
Custodial Accounting Project / Planning, Analysis and Decision Support Release I	c01	s10	EG	i06
Customer Account Data Engine Release I	c01	s10	EG	i06
E-Services Release I	c01	s10	EG	i06
Personal Digital Assistants	c01	s10	NE	i06
Secure Messaging	c01	s10	NE	i06
Penetration Test (Follow Up)	c01	s10	NE	i06
Web Servers	c01	s10	NE	i06
Applications Reviews (Multiple Audits)	c01	s10	NE	i06
Federal Information Security Management Act	c01	s10	NE	i06
HEADQUARTERS OPERATIONS AND EXEMPT ORGANIZATIONS PROGRAMS				
Federal Financial Management Improvement Act of 1996 Remediation Plan (Statutory Review)	c03	s10	IM	i04
Custodial Accounting Project Financial Management Requirements	c03	s10	IM	i05
Competitive Sourcing – Various Information and Shared Services Activities	c03	s09	CS	i05
Reimbursable Work Authorizations	c03	s10	IM	i05
Defense Contract Audit Agency Contract Oversight (Statutory Review)	c08	s10	IM	i05
Assistance to Contract Fraud Investigations	c08	s10	IM	i05
Vendor Invoice Audits—Various Vendors	c08	s10	IM	i05
Civil Actions Taken as a Result of Criminal Investigations	c06	s04	NE	i01
Criminal Investigation Workload Management	c06	s05	NE	i01

PLANNED AUDIT	MANAGEMENT CHALLENGE	IRS STRATEGY	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	Explanations for the Codes Used Below Are Listed in Appendix XV.			
Trends in Criminal Investigation Activities Fiscal Years 1999—2003	c06	s04	NE	i01
Proper Use of Tax Returns and Information	c09	s05	NE	i02
Sensitive Equipment and Specialized Investigative Techniques	c09	s10	NE	i02
Criminal Investigation Non-Filer Program	c06	s04	NE	i01
Oversight for the Processing of Employee Plans Returns	c03 c04 c07	s01	BP	i02
Streamlined Employee Plans Determination Process	c07	s02	BP	i01
Pension Plan Underfunding Waivers	c06	s04	NE	i01
Exempt Organizations Independent Review Process	c06	s05	NE	i00
Section 527 Political Organizations Disclosure Requirements	c07	s03	EG	i04
Exempt Organizations' Market Segmentation Approach to Its Examination and Outreach Programs	c03 c06	s05	BP	i01
Form 990 E-File (Post-Deployment)	c02	s03	EG	i04
Tax Exempt and Government Entities Division's Efforts to Ensure Tax Exempt Bonds Proceeds Are Used as Intended	c06	s05	NE	i01
Tax Exempt Bonds Voluntary Closing Agreement Program	c03 c06	s04	BP	i01
Compliance Checks in Indian Tribal Governments	c03 c06	s05	BP	i01
Tax Exempt and Government Entities Initiatives to Identify Federal, State, and Local Government Entities	c07	s07	NE	i02
Effectiveness of Compliance Checks in Improving Government Entities' Compliance	c03 c06	s05	BP	i01
Processing Tax Exempt and Government Entities Reject Registers	c03 c04 c07	s01 s02	BP	i02
Tax Exempt and Government Entities Efforts to Address Abusive Tax Schemes	c03 c06	s04	BP	i01
Government Performance and Results Act of 1993	c03	s10	BP	i03
Internal Revenue Service Oversight Board	c03	s10	IM	i03
Case Advocacy Processing	c09	s02	NE	i02
Appeals Processing of Offers in Compromise and Collection Due Process Cases	c09	s00	NE	i02

PLANNED AUDIT	MANAGEMENT CHALLENGE	IRS STRATEGY	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	Explanations for the Codes Used Below Are Listed in Appendix XV.			
Centralized Authorization File	c09	s00	NE	i02
Flexiplace	c10	s10	NE	i00
Employee Tax Compliance Program	c06	s00	NE	i01
Service Center Acquisition	c04	s10	IM	i00
Personnel Support Services and Facilities	c00	s10	IM	i05
Competitive Sourcing	c03	s10	HC	i03
Human Resources Investment Fund	c10	s08	HC	i03
Training Effectiveness	c10	s08	HC	i00
Wage and Investment Income Programs				
Accuracy and Reliability of the Digital Daily	c07	s01 s03	EG	i02
Accuracy of Tax Law Specifications in Tax Software	c07	s01 s03	EG	i04
Effective Use of Kiosks	c07	s01	NE	i02
Effectiveness of E-Service Calendar Year 2003 and 2004 Releases	c02 c08	s01 s03	EG	i04
Injured Spouse Relief	c07	s02	NE	i02
Innocent Spouse Claim Determinations	c07	s01	NE	i02
Locating Internal Revenue Service Taxpayer Services	c07	s01	NE	i02
Maximizing the Internal Revenue Service's Public Internet Site	c07	s01 s03	EG	i04
Processing Tax Returns Attachments	c02 c07	s01 s03	NE	i02
Protecting Taxpayer Data at Volunteer Tax Preparation Sites (Follow-up)	c09	s10	NE	i06
Refund Adjustment Notices	c07	s02	NE	i02
Stakeholder Partnership, Education, and Communications Effect on Voluntary Compliance	c03	s01	BP	i03
Tax Return Preparation of Low-Income Taxpayers' Returns	c07	s01	NE	i02
Taxpayer Assistance Centers—November/December 2003 (Statutory Review)	c07	s01	NE	i02
Taxpayer Assistance Centers—Semi-Annual (July - December 2003) (Statutory Review)	c07	s01	NE	i02
Taxpayer Assistance Centers Program, Measures, and Goals	c03	s10	IM	i03
Taxpayer Assistance Centers Quality for the 2004 Filing Season	c07	s01	NE	i02

PLANNED AUDIT	MANAGEMENT CHALLENGE	IRS STRATEGY	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	Explanations for the Codes Used Below Are Listed in Appendix XV.			
Toll-Free Accounts Quality for the 2004 Filing Season	c07	s01	NE	i02
Toll-Free Program Measures and Goals	c03	s10	IM	i03
Toll-Free Tax Law Quality for the 2004 Filing Season	c07	s01	NE	i02
Security and Safety Plan for the Wage and Investment Division	c01	s10	NE	i06
Filing Season Preparation—Accuracy of Forms, Instructions, and Publications for New Tax Laws	c04	s01	NE	i02
Filing Season Preparation Computer Programming Requests for New Tax Laws	c04	s01	NE	i02
2004 Filing Season Individual Return Processing	c04	s01	NE	i02
Processing of Combat Zone Returns	c04	s02	NE	i02
Health Coverage Tax Credit Program	c04	s02	NE	i02
Strategy on the Internal Revenue Service's Implementation of the Earned Income Tax Credit Concept of Operations (Multiple Audits)	c08	s04	IM	i01
Reliability of the Customer Account Data Engine	c02	s01	NE	i02
Validation of Advanced Earned Income Credit on Electronically Filed Returns	c04	s02	NE	i02
Remittance Processing (Follow-up)	c07	s01	NE	i02
Disclosure of Collection Activities with Respect to Joint Filers (Statutory Review)	c09	s01	NE	i02
Enforcement Statistics (Statutory Review)	c09	s00	NE	i00
Extensions of the Assessment Statute Extensions (Statutory Review)	c09	s01	NE	i00
Restrictions on Directly Contacting Taxpayers (Statutory Review)	c09	s01	NE	i00
Taxpayer Designations—Illegal Tax Protester Designation and Nonfiler Designation (Statutory Review)	c09	s01	NE	i00
Fiscal Year 2004 Taxpayer Complaints (Statutory Review)	c09	s01	NE	i00
Fiscal Year 2003 Freedom of Information Act Denials (Statutory Review)	c09	s01	NE	i00
Fiscal Year 2003 Fair Debt Collection Practices Act Violations (Statutory Review)	c09	s01	NE	i00

PLANNED AUDIT	MANAGEMENT CHALLENGE	IRS STRATEGY	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	Explanations for the Codes Used Below Are Listed in Appendix XV.			
Fiscal Year 2003 Appeals Collection Due Process Cases (Statutory Review)	c09	s01	NE	i00
Wage and Investment Division Balance Due Program Planning and Measures	c06 c03	s05	NE	i00
Report Generation System	c02	s00	NE	i00
Wage and Investment Division Automated Underreporter Program Management, Oversight, and Accountability	c06 c03	s05	NE	i01
Wage and Investment Division Correspondence Examination Program Management, Oversight, and Accountability	c06 c03	s05	NE	i01
Questionable W-4 Program (Follow-up)	c06	s05	NE	i01
SMALL BUSINESS AND CORPORATE PROGRAMS				
Classification of Corporate Returns	c06	s04	NE	i01
Selected Examination Issues	c06	s04	NE	i01
Analysis of Queue/Shelved Cases	c06	s05	NE	i01
Trust Fund Taxpayer Delinquent Account Collection Actions	c06	s04	NE	i01
Compliance Trends	c06	s05	NE	i01
Use of Examination Specialists	c06	s04	NE	i01
Contracting Out Collection Activities	c06	s04	NE	i01
Examination of High Income Taxpayers	c06	s04	NE	i01
Audit Reconsiderations	c09	s01	NE	i01
Collection Risk-Based Approach	c06	s04	NE	i01
Collection Field Function Offers in Compromise	c06	s04	NE	i01
Field Examination Redesign	c06	s04	NE	i01
Effectiveness of Collection Field Function Case Assignment Practices	c06	s04	NE	i01
Seizures (Statutory Review)	c09	s01	NE	i00
Collection Field Function Consultation Initiative	c06	s04	NE	i01
Levies (Statutory Review)	c09	s02	NE	i00
E-Commerce Compliance	c06	s04	EG	i01
Lead Development Centers	c06	s04	NE	i01
Liens (Statutory Review)	c09	s02	NE	i00
Evaluation of the Potential Uses for Business Information Returns	c06	s04	NE	i01
Unprocessable Forms 1120S	c05	s02	NE	i02
Individual Taxpayers Claiming the Low Income Housing General Business Credit	c08	s04	NE	i01

PLANNED AUDIT	MANAGEMENT CHALLENGE	IRS STRATEGY	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	Explanations for the Codes Used Below Are Listed in Appendix XV.			
Accuracy of Manually Assessed Penalties on Business Accounts	c07	s02	NE	i02
Use of Form 4137 to Collect Federal Insurance Contribution Act Tax on Tips and Wages	c05	s02	NE	i02
Omission of Forms 940/941 from the National Research Program	c06	s04	NE	i01
Notice Review Issues (Follow-up)	c04	s01	NE	i02
Security in the Internal Revenue Service's Business Processing Centers	c01	s10	NE	i06
Business Taxpayer Satisfaction with Returns Processing Activities	c04	s01	BP	i02
Completeness of Electronically Filed Suspicious Activity Reports and Currency Transaction Reports on Financial Crimes Enforcement Network's Currency and Banking Reporting System Database	c00	s03	EG	i00
Quality of Large and Mid-Size Business Division Service Center Representatives	c07	s01	NE	i02
Effectiveness of Modernized E-File (Form 1120)	c04	s03	EG	i04
Advanced Earned Income Credits on Forms 941	c06	s04	NE	i01
Timing of Assessments of Failure-to-Pay Penalties	c04	s00	IM	i02
Tentative Carrybacks	c04	s01	IM	i02
Aid Provided by Internal Revenue Service to Start-Up Businesses	c07	s01	EG	i01
Processing Corporate Tax Returns for Controlled Groups	c04	s01	NE	i02
Review of the Combined Annual Wage Reporting Program	c06	s04	BP	i01
Internal Revenue Service's Implementation of Tax Law Changes Affecting Business Submission Processing	c04	s01	NE	i01
Revenue Agent Performance Management	c06	s00	HC	i01
Customer Service Filing Season	c07	s01	NE	i02
Evaluation of Limitation on the Failure-to-File Penalty	c06	s00	NE	i01
Analysis of Allowing Self-Employment Tax Deduction on Late/No File Returns	c06	s00	NE	i01
Analysis of Decline in Automated Collection System Collections	c06	s04	NE	i01
Progress of Non-Filer Strategy	c06	s04	NE	i01

PLANNED AUDIT	MANAGEMENT CHALLENGE	IRS STRATEGY	PRESIDENTIAL INITIATIVE	STRATEGIC PLANNING QUESTIONS
	Explanations for the Codes Used Below Are Listed in Appendix XV.			
Tax Shelter Resolutions	c06	s04	NE	i01
The Effectiveness of Promoter Examinations on Tax Compliance	c06	s04	NE	i01
Implementation of Limited Issue Focused Examinations	c06	s05	NE	i01
The Effectiveness of the Automated Substitute for Return Program for Small Business/Self-Employed Taxpayers	c06	s04	NE	i01
The Effectiveness of the Automated 6020 (b) Program	c06	s04	NE	i01
Contracting Out Toll-Free Pilot	c07	s01	NE	i02
The Effect of Identity Fraud on Taxpayers	c00	s00	NE	i00
The Use of Foreign-Sourced Income Documents	c06	s06	NE	i01
The Effect of Employment Tax Issues on Tax Administration	c06	s00	NE	i01
Corporate Extensions of Time to File	c00	s00	NE	i00
Tax Compliance of Non-Wage Earners	c06	s05	NE	i01
Review of Transfer Pricing Documentation	c06	s04	NE	i01
Effectiveness of Large and Mid-Size Business Division Research Efforts	c06	s04	NE	i01

Appendix XV

CODES USED IN THE LIST OF PLANNED AUDITS FOR FISCAL YEAR 2004 BY MANAGEMENT CHALLENGE, INTERNAL REVENUE SERVICE STRATEGY, PRESIDENTIAL INITIATIVE, AND STRATEGIC PLANNING QUESTIONS

MANAGEMENT CHALLENGE		IRS STRATEGY		PRESIDENTIAL INITIATIVE		STRATEGIC PLANNING QUESTIONS	
ISSUE	CODE	ISSUE	CODE	ISSUE	CODE	ISSUE	CODE
Security of the IRS	c01	Meet the needs of taxpayers	s01	Strategic Management of Human Capital	HC	Is the IRS effective in maximizing taxpayer compliance?	i01
Systems Modernization of the IRS	c02	Reduce taxpayer burden	s02	Competitive Sourcing	CS	Is the IRS improving its customer service to every taxpayer in every interaction?	i02
Integrating Performance and Financial Management	c03	Broaden the use of electronic interactions	s03	Improved Financial Management	IM	Is the IRS advancing financial and management reforms, including *The President's Management Agenda*?	i03
Processing Returns and Implementing Tax Law Changes During Filing Season	c04	Address key areas of noncompliance	s04	Expanded Electronic Government	EG	Is the IRS sufficiently modernizing its information technology and providing the intended benefits to taxpayers, such as e-services?	i04
Complexity of the Tax Law	c05	Stabilize traditional compliance activities	s05	Budget and Performance Integration	BP	Is the IRS adequately supported with timely, economical and effective information and services?	i05
Tax Compliance Initiatives	c06	Deal effectively with the global economy	s06	Other/Issues Unique to IRS	NE	Is the IRS adequately protecting its employees, facilities, data and systems?	i06
Providing Quality Customer Service Operations	c07	Meet the special needs of the tax-exempt community	s07			Other	i00
Erroneous and Improper Payments	c08	Recruit, develop, and retain a quality workforce	s08				

MANAGEMENT CHALLENGE		IRS STRATEGY		PRESIDENTIAL INITIATIVE		STRATEGIC PLANNING QUESTIONS	
ISSUE	CODE	ISSUE	CODE	ISSUE	CODE	ISSUE	CODE
Taxpayer Protection and Rights	c09	Provide high-quality, efficient, and responsive information and shared support services.	s09				
Human Capital	c10	Promote effective asset and information stewardship.	s10				
Other	c00	Other	s00				