



*Review of the Deposit and Posting
of Payments by Bond Issuers to
Resolve Tax-Exempt Bond
Compliance Issues*

September 22, 2015

Reference Number: 2015-10-076

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

Redaction Legend:

1 = Tax Return/Return Information

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HIGHLIGHTS

REVIEW OF THE DEPOSIT AND POSTING OF PAYMENTS BY BOND ISSUERS TO RESOLVE TAX-EXEMPT BOND COMPLIANCE ISSUES

Highlights

Final Report issued on
September 22, 2015

Highlights of Reference Number: 2015-10-076 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

The IRS receives payments from bond issuers to resolve tax-exempt bond noncompliance. For example, the IRS may determine that bond proceeds were not used for the purpose for which the bonds were issued. Payments made to resolve these types of compliance issues are recorded on bond issuer accounts by the IRS, and payments that are applied to incorrect accounts can result in potential taxpayer burden to resolve the misapplied payments.

WHY TIGTA DID THE AUDIT

The overall objective of this audit was to determine whether payments made to resolve tax-exempt bond compliance issues are posted timely and accurately to bond issuer accounts.

WHAT TIGTA FOUND

The processing of payments made by bond issuers to resolve tax-exempt bond compliance issues has significantly improved since TIGTA's last audit in Fiscal Year 2006. In Fiscal Year 2006, TIGTA found that: 1) about 47 percent of the payments were deposited from one to 301 days late, 2) bond issuer accounts were not always updated to show the correct payment received date, 3) payments were not always posted to the correct account, and 4) payments posted to bond issuer accounts up to 20 days late.

In response to TIGTA's prior audit, the Tax Exempt Bonds office began using the Electronic Federal Tax Payment System for most payments

made to resolve tax-exempt bond compliance issues. All of the payments TIGTA reviewed for bond accounts as part of this follow-up audit were deposited timely, which is a significant improvement from TIGTA's prior audit. TIGTA reviewed all 43 payments (totaling almost \$6 million) for Fiscal Year 2014 that were paid through the Electronic Federal Tax Payment System and determined that all payments were deposited timely, posted timely, and posted accurately to the correct bond issuer accounts.

In addition, 35 payments to resolve tax-exempt bond compliance issues were received from Fiscal Years 2008 through 2014 in the form of paper checks, totaling more than \$5 million, and mailed to the Ogden Submission Processing site for deposit. TIGTA determined that all 35 manual payments were deposited timely; however, five payments were initially not posted accurately. IRS management could not locate adequate case documentation for TIGTA to determine specific reasons for the inaccurate postings. While TIGTA did not identify any taxpayer burden associated with these five payments, it is important for the IRS to post payments accurately.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Tax Exempt Bonds, improve manual payment controls by providing reasonable assurance that payment processing documentation is retained for future reference and providing guidance for completing manual payment control logs accurately.

In their response, IRS management agreed with TIGTA's recommendations and provided a detailed response outlining the planned corrective actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 22, 2015

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES
DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Review of the Deposit and Posting of Payments
by Bond Issuers to Resolve Tax-Exempt Bond Compliance Issues
(Audit # 201510013)

This report presents the results of our review to determine whether payments made to resolve tax-exempt bond compliance issues are posted timely and accurately to taxpayer accounts. This review addresses the major management challenge of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).



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*Review of the Deposit and Posting of Payments by Bond Issuers
to Resolve Tax-Exempt Bond Compliance Issues*

Abbreviations

| | |
|--------|---------------------------------------|
| AIMS | Audit Information Management System |
| EFTPS | Electronic Federal Tax Payment System |
| FY | Fiscal Year |
| I.R.C. | Internal Revenue Code |
| IRS | Internal Revenue Service |
| TEB | Tax Exempt Bonds |
| VCAP | Voluntary Closing Agreement Program |



*Review of the Deposit and Posting of Payments by Bond Issuers
to Resolve Tax-Exempt Bond Compliance Issues*

Background

The Internal Revenue Service's (IRS) Tax Exempt Bonds office¹ (hereafter referred to as the TEB office) administers Federal Government tax laws applicable to tax-exempt bonds. Tax-exempt bonds include governmental and qualified private activity certificates of debt issued by State and local governments or by organizations acting on their behalf, such as universities and nonprofit organizations. They are used to finance the construction or expansion of various tax-exempt projects that benefit the public, such as courthouses, hospitals, airports, and highways.

Tax-exempt bond noncompliance is identified and corrected through one of two TEB office compliance programs:

- **Tax-exempt bond examinations** are a review of the bond issuer's books and records² to determine compliance with the Internal Revenue Code (I.R.C.). As part of the examination program, the TEB office also conducts examinations related to I.R.C. Section (§) 6700.³ The I.R.C. imposes a penalty for promoting an abusive tax shelter while making a false or fraudulent misrepresentation as to any material matter or for making a material gross valuation overstatement as to any material matter.
- The **Voluntary Closing Agreement Program**⁴ (VCAP) provides a means for bond issuers to self-identify violations and report them to the IRS. To encourage self-reporting, the VCAP allows a closing agreement amount that is generally less than the amount the bond issuer would pay if the violation were resolved during an examination.

When noncompliance is identified, the TEB office attempts to reach an agreement with the bond issuer or its representative on an amount to resolve tax noncompliance, and the representative makes a payment to correct the noncompliance issue. For example, the IRS may determine that bond proceeds were not used for the purpose for which the bonds were issued. In Fiscal Year (FY) 2014, the IRS received payments to resolve

***Bond issuers or their
representatives made payments
ranging from ****1****
*****1*****to
resolve noncompliance in
Fiscal Year 2014.***

¹ The TEB office is part of the Tax Exempt and Government Entities Division.

² As a part of examinations, TEB office personnel review Form 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*, which is filed one time by issuers of tax-exempt private activity bonds when a tax-exempt bond is issued.

³ I.R.C. § 6700 (2004).

⁴ The VCAP was established by IRS Notice 2001-60 on October 1, 2001.



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tax compliance issues on bond accounts ranging from *****1*****
and totaling almost \$6 million.

In a FY 2006 report,⁵ we found that internal control procedures were not adequate to assure the timely deposit⁶ and accurate posting of payments to bond issuer accounts and recommended that the Director, TEB, establish effective controls over the receipt and processing of payments.

This review was performed with information obtained from the Tax Exempt and Government Entities Division TEB office in Washington, D.C., and the Ogden Submission Processing site in Ogden, Utah, during the period October 2014 through May 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁵ Treasury Inspector General for Tax Administration, Ref. No. 2006-10-128, *Insufficient Controls Resulted in Significant Delays in Processing Tax-Exempt Bond Payments and Some Unreliable Payment Posting Dates* (Aug. 2006).

⁶ 31 U.S.C. § 3302 (1994) requires payments to be deposited by the third business day after receipt.



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Results of Review

Implementation of the Electronic Federal Tax Payment System Resulted in Significant Improvements for Depositing and Posting of Payments Made to Resolve Tax-Exempt Bond Compliance Issues

The processing of payments made to resolve tax-exempt bond compliance issues has significantly improved since our last audit in FY 2006. In FY 2006, we found that: 1) about 47 percent of the payments were deposited from one to 301 days late, 2) bond issuer accounts were not always updated to show the correct payment received date, 3) payments were not always posted to the correct account, and 4) payments posted to bond issuer accounts up to 20 days late. In contrast, we determined as part of this follow-up audit that all payments reviewed for bond accounts were deposited timely. This significant improvement is due to the TEB office implementing, after our FY 2006 audit,⁷ the use of the Electronic Federal Tax Payment System (EFTPS)⁸ to receive most payments to resolve tax-exempt bond compliance issues.

Electronic payment controls

We reviewed all 43 payments to resolve compliance issues (totaling almost \$6 million) for FY 2014 that were made through the EFTPS. We determined that all payments were deposited timely. In addition, Tax Exempt and Government Entities Division's Government Entities Compliance Unit personnel reviewed payments and ensured that they were posted accurately and timely to the correct issuer bond module.⁹ Since our prior audit, the TEB office has also implemented controls to provide reasonable assurance that funds are deposited through the EFTPS prior to TEB office management signing the closing agreement¹⁰ and that the correct

⁷ The U.S. Department of the Treasury began using the EFTPS in FY 1996, but the TEB office did not implement its use until after FY 2006.

⁸ A free system provided by the U.S. Department of the Treasury designed to process Federal tax deposits and other types of business and individual payments. The EFTPS allows business and individual taxpayers to pay their Federal taxes electronically via the Internet or telephone 24 hours a day, seven days a week, and allows scheduling payments up to 365 calendar days in advance of the desired payment date. Compared to manual processing, the EFTPS is intended to significantly reduce the amount of time for depositing funds and reduce payment-related errors that can result in penalties and interest charges for the taxpayer.

⁹ Part of an issuer's account which reflects tax data for one tax class (Master File Tax Code) and one tax period. A Master File Tax Code is a two-digit code representing a type of tax, and a tax period is a period of time for which a return is filed.

¹⁰ Issuers or third parties of bond issuers can resolve violations of the I.R.C. and applicable income tax regulations on behalf of their bondholders or themselves through closing agreements with the IRS.



Review of the Deposit and Posting of Payments by Bond Issuers to Resolve Tax-Exempt Bond Compliance Issues

payment is posted to the correct account. Specifically, after tax noncompliance is identified and the TEB office and the bond issuer come to an agreement on an amount to resolve the noncompliance, the following occurs:

- **Bond issuer payment initiation** – The bond issuer initiates a payment from their financial institution using a 15-digit number that uniquely identifies a payment within the Automated Clearing House.¹¹ The electronic payment record includes the type of payment and taxpayer identification information.
- **IRS validation of payment** – When payment is received by the IRS, the payment information is validated to assure that the Taxpayer Identification Number,¹² Master File Tax Code, and tax period are correct and, if they are needed, that corrections are made to the electronic record. In addition, after receiving proof of the deposit, TEB office management signs the closing agreement.
- **Transfer of payment** – After the closing agreement is finalized, the Government Entities Compliance Unit manually transfers the payment to the specific bond module on the Master File.¹³ This step occurs because government entities or their representatives often have multiple tax-exempt bonds, and the EFTPS was not designed to differentiate between different bond issues.

Since the TEB office does not sign the closing agreement or assess an amount to resolve bond noncompliance until it has proof that funds have been deposited through the EFTPS, payments for bond noncompliance should never be late.

Manual payment controls

The TEB office receives most payments from bond issuers to resolve compliance issues through the EFTPS but continues to receive some paper checks (known as manual payments) to resolve noncompliance. We determined that the process used to control manual payments was effective in assuring that payments were deposited to bond issuer accounts timely, but was sometimes not effective to assure that payments were accurately posted and were recorded, or recorded accurately, on payment control logs. We could not determine the reasons for all control weaknesses because TEB office management could not provide adequate documentation for our analysis.

¹¹ The primary system used by agencies for electronic funds transfer.

¹² A nine-digit number assigned to taxpayers (*e.g.*, bond issuers) for identification purposes. Depending upon the nature of the taxpayer, the Taxpayer Identification Number is an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.

¹³ The IRS database that stores various types of taxpayer (*e.g.*, bond issuer) account information. This database includes individual, business, and employee plans and exempt organizations data.



Review of the Deposit and Posting of Payments by Bond Issuers to Resolve Tax-Exempt Bond Compliance Issues

Deposit and posting of manual payments to resolve tax-exempt bond compliance issues

To determine if manual payments are deposited according to Federal financial guidelines and posted to taxpayer accounts timely,¹⁴ we obtained manual payment control logs¹⁵ from TEB office management, identified all manual payments that were received from FY 2008 through 2014, and compared the IRS received date shown on the manual payment control log to the deposit date shown on the Master File.

Since Federal guidelines require payments to be deposited by the third business day after receipt, we allowed five calendar days (in consideration of payments that may have been in transit over the weekend). We determined that all 35 manual payments totaling more than \$5 million from the manual payment control logs were deposited timely. We also determined that five (14 percent) of 35 payments totaling more than \$485,000 were deposited timely but not immediately posted accurately. IRS staff transferred the payments to correct the accounts from 13 to 101 days after the original posting.

We requested payment processing documentation for all five payments to determine where the breakdown in controls occurred. *****1*****

*****16*****17*****1*****
*****1*****
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*****1*****
*****1*****
*****1*****
*****1*****
*****1*****

Payments that are applied to incorrect accounts can result in potential taxpayer burden to resolve the misapplied payments, and unreliable data can create difficulties in researching taxpayer

¹⁴ The IRS does not have criteria for timely posting payments to accounts. However, we allowed five days for payments to post when we tested the timeliness of payment processing, in part because Federal guidelines require funds to be deposited within three business days of collection.

¹⁵ Manual payment control logs provide a record of all checks received, the date the checks are received, and information such as the payment amount and bond issuer identifying information. Upon receipt, checks should be entered on the check log and updated with processing and tracking information.

¹⁶ Form 3244-A is the standard form prepared upon acceptance of a payment tendered before or after a deficiency has been determined and an agreement has been secured from the bond issuer. The taxpayer's identification information, the tax form number and Master File Tax Code, the tax period, the date the remittance was received, and the transaction information (such as the transaction code and the associated amounts) are entered on the form. The payment voucher and the taxpayer's payment should be forwarded to the applicable servicing center on the same day of receipt or the following day. See Appendix V for a copy of Form 3244-A.

¹⁷ A plan number is a three-digit number used to differentiate between bonds that are maintained by the same bond issuer.



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accounts. However, we did not identify any taxpayer burden associated with the five incorrect payment postings because noncompliance assessments were not posted prior to the bond issuer accounts being updated to reflect the receipt of funds.

Payments could not be verified, or were not recorded accurately, on manual payment control logs

The purpose of the manual payment control log is to provide a record of all manual payments received by the TEB office, including the date the payments were received. TEB office management implemented this control after we recommended in our FY 2006 audit that a record of payments and the date received be kept to assure that no payments were lost or misdirected prior to posting to taxpayer accounts. In FY 2006, we could not determine the extent or reasons for delays in depositing payments because the TEB office had not established sufficient internal controls to document when payments were received or processed and mailed for deposit. In the current audit, we found that the IRS implemented the use of a payment control log, but we could not verify that all payments were recorded and found that some payments were recorded inaccurately.

In addition to the 35 payments recorded on the payment control logs, *****1*****
*****1*****
*****1*****
*****1*****.

We also compared manual payment received dates from the manual payment control logs to the transaction date on the Master File and found that received dates for 13 (37 percent) of the 35 payments appeared to have been recorded on manual payment control logs from one to six days after receipt in the local office instead of on the day of receipt. This may have occurred because manual payment control logs appear to be updated with the date the mail was opened, which may be several days after the mail was received. While notated incorrectly on the log, the payments were posted with what appears to be the correct received date on the Master File. According to TEB office management, mail is not required to be opened on a daily basis, and procedures for opening mail may vary in different posts of duty. TEB office management also stated that “both the actual received date and the processing date should be reflected on the check control log...and...it appears that in some cases, employees are recording the processing date as the received date.”

If payments are not recorded or are not recorded accurately on the manual payment control log, TEB office management will not have an accounting of payments received and cannot determine if payments are mailed and deposited by the third business day after receipt as required by Federal financial guidelines.



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Recommendation

Recommendation 1: The Director, TEB, should improve manual payment controls by:

- Providing reasonable assurance that tax-exempt bond payment documentation, including Forms 3244-A and 3210, *Document Transmittal*,¹⁸ are retained for future reference.
- Providing guidance for completing manual payment control logs accurately.

Management's Response: The IRS agreed with this recommendation and responded that it would implement the following improvements:

- The TEB office will hold additional manual check processing training for employees to remind them of the importance of accurately completing manual control logs.
- The TEB office will upload into the Reporting Compliance Case Management System, which is the Tax-Exempt and Government Entities Division's electronic format for storing case documentation (documents related to check processing for the case). This will allow managers to verify that the Form 3244-A is properly completed and to ensure proper document storage.

¹⁸ Form 3210 is used to transmit the Form 3244-A and the taxpayer remittance. The transmittal should include the bond issuer's identification information, tax form number, tax period, and date the payment was received by the IRS. This information identifies the bond issuer and the type of payment received and where to post the payment on the bond issuer's account. Form 3210 is used to transmit Form 3244-A along with the payment by overnight traceable mail for deposit and processing. Upon receipt of Form 3210, a confirmation copy should be returned to the originating IRS office within five business days to acknowledge receipt of the payment. If the acknowledgement is not received within 10 business days, the sending office should follow up.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether payments made to resolve tax-exempt bond compliance issues are posted timely and accurately to taxpayer accounts. To accomplish our objective, we:

- I. Identified payments to resolve tax-exempt bond compliance issues that were received through the EFTPS in FY 2014 and manual payments for the same purpose received from FYs 2008 through 2014.
 - A. Obtained Audit Information Management System¹ (AIMS) data for FY 2014 from the Treasury Inspector General for Tax Administration Data Center Warehouse² using codes to identify the population of examinations, including those related to I.R.C. § 6700, and VCAP assessments on TEB office taxpayers. The population was refined to those accounts closed with a closing agreement.
 - B. Obtained Master File data from the Treasury Inspector General for Tax Administration Data Center Warehouse for the accounts closed with a closing agreement.
 - C. Obtained manual payment control logs and identified manual payments related to closing agreements received by the TEB office from FYs 2008 through 2014 that were not processed through the EFTPS.
 - D. Reviewed the Internal Revenue Manual and held discussions with TEB office management to identify manual and EFTPS deposit and posting requirements.
 - E. Determined that the AIMS and Master File data were sufficiently reliable for our purposes. We compared the total number of records obtained from the AIMS extract to record counts provided by TEB office management; reviewed data fields; and determined that dollar fields contained monetary amounts, date fields contain dates, *etc.*, and that any material blank fields were explainable. We also compared account information from the AIMS data to account information from the Master File and found that bond issuer account information was the same on both data sets.

¹ The AIMS is a computer system used by the Tax Exempt and Government Entities Division to control returns, input assessments and adjustments to the Master File, and provide management information reports.

² A collection of IRS databases containing various types of taxpayer account information that is maintained by the Treasury Inspector General for Tax Administration for the purpose of analyzing data for ongoing audits.



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- II. Determined if payments made to resolve tax-exempt bond compliance issues were posted to Master File accounts timely and accurately.
- A. Analyzed the AIMS and Master File data and determined that all FY 2014 EFTPS payments for examinations including those related to I.R.C. § 6700 and VCAP cases posted to the correct bond issuer's bond module within 10 days after the closing agreement was finalized, deposits were made by or prior to the assessment date, no improper notices or refunds were issued, and the IRS did not need to correct taxpayer accounts.
- B. Performed Integrated Data Retrieval System³ account analysis and determined whether all manual payments received by the TEB office from FYs 2008 through 2014 were deposited within five days of receipt and posted to the correct bond issuer's bond module within five days of deposit and that the IRS did not need to correct bond issuer accounts.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: Federal Government financial guidelines and IRS policies, procedures, and practices for receiving, depositing, and recording payments made by bond issuers to resolve tax compliance issues. We evaluated these controls by interviewing IRS management about the process for receiving, depositing, and recording payments and by reviewing cases to determine if payments were posted timely and accurately.

³ IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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Appendix II

Major Contributors to This Report

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Troy D. Paterson, Director

Gerald T. Hawkins, Audit Manager

Andrew J. Burns, Lead Auditor

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Yolanda D. Brown-Alexander, Auditor

Donald J. Martineau, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T
Director, Government Entities, Tax Exempt and Government Entities Division SE:T:GE
Director, Tax Exempt Bonds, Tax Exempt and Government Entities Division SE:T:TEB
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Audit Coordination OS:PPAC:AC
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Director, Communications and Liaison, Tax Exempt and Government Entities
Division SE:T:C&L



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 15 manual payment entries (see page 3).

Methodology Used to Measure the Reported Benefit:

Review of the Master File accounts for the bond issuers associated with 35 manual payments made by bond issuers to resolve tax compliance issues received by the TEB office from FYs 2008 through 2014 showed that 13 payments were recorded on the manual payment control logs from one to six days after receipt in the local office rather than on the day of receipt. In addition, *****1*****
*****1*****.



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Appendix V

Payment Posting Voucher (Form 3244-A)

Below is an example of a Form 3244-A, *Payment Posting Voucher*, which is used to process payment deposits and post the payments to taxpayer accounts.

| Payment Posting Voucher — Examination <i>(Not a taxpayer receipt)</i> | | | | D L N | | | |
|---|-------------|--------|---------|---|-----------------------------------|-----------------------|-------------------------------|
| N M F | U L C | DLN | SSN/EIN | Form number/ MFT | Tax Period | Plan/Report Number | Transaction/ Received date |
| | | Status | | | | | |
| Taxpayer name, address, and ZIP code <i>(Please print legibly or type)</i> | | | | List, in the column below, payments to be posted to the taxpayer's account. A maximum of two <i>Credit</i> transactions may be shown. | | | |
| Remarks | | | | Transaction Data | | | |
| | | | | Amount | Code | Description | |
| List, in the column below, any <i>Debit</i> amount to be assessed. A maximum of one debit transaction may be shown. | | | | Transaction Data | | | |
| | | | | Amount | Code | Description | |
| Trace ID Number | | | | 170 | ES penalty | | |
| <input type="checkbox"/> 6603 <input type="checkbox"/> 318(C) | | | | 180 | FTD penalty | | |
| Prepared by <i>(Name and unit symbol)</i> | | | | 360 | Fees and collection cost | | |
| | | | | 570 | Additional liability pending | | |
| | | | | | Other debit | | |
| | | | | | Other debit | | |
| | | | | 670 | Subsequent Payment | | DPC |
| | | | | 610 | Remittance with return | | |
| | | | | 620 | Payment for Form 7004 | | |
| | | | | 640 | Advance payment on Deficiency | | DPC |
| | | | | 430 | All other estimated tax payments | | |
| | | | | 660 | Est. tax payment Form 706/1041-ES | | DPC |
| | | | | 680 | Designated interest | | DPC |
| | | | | | Other credit | | DPC |
| | | | | | Total payment | | |

Form **3244-A** (Rev. 1-2014) Catalog Number 22220G publish.no.irs.gov Department of the Treasury - Internal Revenue Service

Source: *IRS.gov.*



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Appendix VI

Management's Response to the Draft Report



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

SEP 04 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Sunita B. Lough
Commissioner, Tax Exempt and Government
Entities Division

SUBJECT: Draft Audit Report – Review of the Deposit and Posting of
Payments by Bond Issuers to Resolve Tax Compliance
Issues (Audit # 2015-10013)

This memorandum responds to TIGTA's Draft Audit Report – Review of the Deposit and Posting of Payments by Bond Issuers to Resolve Tax Compliance Issues (Audit # 2015-10013) (the Report). The audit considered whether tax-exempt bond closing agreement payments that the Office of Tax-Exempt Bonds (TEB) receives are posted timely and accurately. This audit follows up on a TIGTA audit completed in Fiscal Year 2006, and the Report concludes that the processing of payments "has significantly improved" from the prior audit and that "all payments were deposited timely."

TEB is responsible for regulating tax-advantaged bonds, which comprise tax-exempt bonds, tax-credit bonds, and direct-pay bonds. Generally, when there is a compliance problem with a tax-advantaged bond, TEB works to resolve the problem with the issuer of the bonds. TEB may discover the problem in an examination of the issuer's information return for the bonds, or the issuer may discover the problem and voluntarily come to TEB to resolve the problem. Resolution in an examination is done through an examination closing agreement. When an issuer voluntarily comes in to report noncompliance, the problem may be resolved through a TEB Voluntary Compliance Program (VCAP) closing agreement. Under either closing agreement program, the issuer may be required to make a closing agreement payment to TEB. To improve how closing agreement payments are processed, TEB implemented procedures requiring that most payments be submitted through the Electronic Federal Tax Payment System (EFTPS); however, some issuers still submit checks to TEB. If TEB receives a check, a TEB employee records the check on a manual payment log, posts the check on a Form 3244-A, Payment Posting Voucher - Examination, and



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transmits the check to the Ogden Submission Processing Center, using a Form 3210, Document Transmittal, for posting. When the check is received at the Processing Center, the Center returns a confirmation of receipt.

While the Report concludes that all payments were timely processed, it also states that the current audit discovered that some payments were first posted to another account before being moved to the correct account and the IRS "could not locate adequate case documentation" thereof. The posting errors were subsequently discovered and resolved using internal controls that were in place prior to this audit. At the same time, the audit "did not identify any taxpayer burden associated with these five payments".

Attached is a detailed response outlining the corrective actions that TEB will take to address your recommendation. If you have any questions, please contact me, or a member of your staff may contact Nannette M. Downing, Assistant Deputy Commissioner (Government Entities/Shared Services) at (202) 317-8870.

Attachment



*Review of the Deposit and Posting of Payments by Bond Issuers
to Resolve Tax-Exempt Bond Compliance Issues*

Attachment

**Corrective Actions in response to TIGTA's Draft Audit Report – Review of
the Deposit and Posting of Payments by Bond Issuers to Resolve Tax
Compliance Issues (Audit # 201510013)**

RECOMMENDATION: The Director, TEB, should improve manual payment controls by:

1. Providing reasonable assurance that tax-exempt bond payment documentation, including Forms 3244-A and 3210, Document Transmittal, are retained for future reference.
2. Providing guidance for accurately completing manual control logs.

CORRECTIVE ACTIONS: TEB plans to implement the following improvements:

1. TEB will hold additional manual check processing training for employees to remind them of the importance of accurately completing manual control logs.
2. TEB will upload into the Reporting Compliance Case Management System (RCCMS), which is the Tax-Exempt and Government Entities' (TE/GE's) electronic format for storing case documentation, documents related to check processing for the case. This will allow managers to verify that the Form 3244-A is properly completed and to ensure proper document storage.

PROPOSED IMPLEMENTATION DATE:

1. TEB plans to hold training for its employees by the end of the second quarter of FY 2016, March 31, 2016.
2. TEB will begin uploading check processing documents in RCCMS by the end of the second quarter of FY 2016, March 31, 2016.

RESPONSIBLE OFFICIAL(S):

Director, TEB

CORRECTIVE ACTION(S) MONITORING PLAN:

TEB will review its manual check processing logs at least once during FY 2016 to evaluate the effectiveness of the training. Once the records are stored on RCCMS, the manager who reviews the case file can confirm that the check is properly recorded.